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JAPAN
Executives ready to return to China
Page 4

World News

Peking calls for arrest of 21 student leaders

The Chinese Government last night struck at the heart of the student pro-democracy movement when it launched a nationwide search and called for the arrest of 21 student leaders active in the Peking demonstrations.

In what appeared a widening reign of terror, police were authorised to use firearms to break up illegal public gatherings. Page 4

Ethnic unrest grows

Over a dozen people have been killed and scores injured as the Bulgarian authorities attempt to quash the growing unrest among the ethnic Turkish community in Kurzhali. Page 2

Boat people bargain

Vietnam indicated it was ready to strike a bargain over the thousands of "boat people" who have fled the country and are existing in overcrowded camps in Hong Kong and other coastal states in South-East Asia. Page 4

EC frontiers report

EC Governments are in danger of slipping seriously behind schedule in agreeing measures to scrap frontier formalities, says a critical report adopted by the European Commission. Page 2

Free election talks

Talks began in Budapest between the Hungarian Communist leadership and the non-Communist opposition on the holding of the first free elections next year to a new parliament. Page 2

Party officials retire

Several top Polish Communist Party officials have decided not to stand for parliament in supplementary elections after failing to get 50 per cent of the national vote in the election of June 4. Page 2

Poll losses forecast

UK Government appears to be bracing itself for significant losses in tomorrow's elections to the European Parliament after admitting that it appears to be trailing the opposition Labour Party. Page 12

Sri Lankan alert

Sri Lankan security forces have been put on full alert in an effort to forestall violence on the 25th anniversary of the extremist Sinhalese JVP party. Page 4

Israeli crackdown

Israeli troops demolished four Arab homes and sealed seven and announced the arrests of more than 50 Palestinian activists in the occupied West Bank.

Inquiry intensifies

The investigation into the possible causes of the fan blade failures in CFM-56-3 engines powering Boeing 737-400 airliners intensified in an effort to minimise disruption to air services. Page 10

Oil blaze capped

Red Adair, the American firefighter, joined Soviet emergency services to put out a blaze which raged for nearly three weeks on an oil platform in the Caspian Sea.

Battleship found

The Second World War German battleship Bismarck, sunk in May 1941, was found in surprisingly good condition on the floor of the Atlantic by the oceanographic research team which found the Titanic.

Business Summary

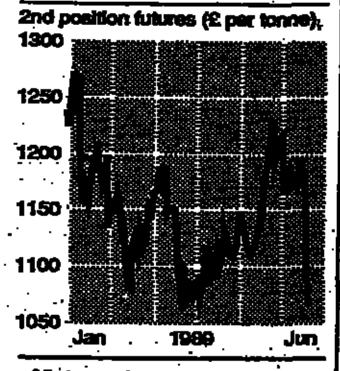
La Générale campaign begins for share offer

Société Générale de Belgique, leading Belgian holding company, yesterday chose a Brussels theatre to launch the official marketing campaign for its forthcoming BFr20bn-25bn ($481-601m) share offer.

The main announcement was that the issue price will be pitched between BFr2900 and BFr3200 – equivalent to BFr4350 and BFr4800 ahead of the three-for-two share split which will be agreed at an EGM next Tuesday. Page 25

COFFEE prices tumbled in New York overnight and in London yesterday as the prospect grew nearer of a free market in coffee from the end of September after the collapse

Coffee



of International Coffee Organisation talks. The September contract in robusta coffee on the London Futures and Options Exchange (Fox) closed at £1,065 a tonne, a fall of £123 on the day. Commodities, Page 38

BRAZIL's stock markets reopened but there was almost no trading. The government said Mr Naji Nahas, the country's leading investor who provoked a crisis on the stock markets, would have all his positions in the markets cancelled. Page 6

S.G. WARBURG Group, one of the City's leading investment banking groups, reported pre-tax profits of £111.5m ($170m) for the year. Page 25

ORDINARY Shares in Asko, fast-expanding West German discount retailing group, fell by DM45 to DM801 ($396) after news that the company's Adler discount clothing subsidiary was being investigated for various tax and customs offences. Page 25

EXPORT Development Corporation Canadian export credit agency, has been criticised for maintaining an inadequate allowance for possible losses on its sovereign loans. Page 7

TAIWAN is to send five missions to the US between August and early 1990 to buy American products worth about $1.5bn to help narrow the trade gap. Page 7

CANON of Japan has made a $100m investment to acquire a 16.6 per cent stake in Next, California-based computer manufacturing start-up company. Page 26

GENERAL MOTORS unveiled plans to launch fixed-price, drive-in servicing centres across Europe, in an attempt to win back some of its $750m-a-year parts and service business. Page 26

BAYER, West German chemical company, plans to invest Y35bn ($242.4m) in Japan in the next few years. Page 29

ROLLS-ROYCE said the US airliner leasing group International Lease Finance Corp (ILFC) had agreed to buy aircraft engines worth $200m. Page 7

DAIMLER-BENZ: A public hearing will begin next month on whether to allow the planned merger of Daimler-Benz with MBB, the West German aerospace group. Page 3

Hungry children pay the price of Kabul's defiance

By Christina Lamb in Kabul

AT 5am Rahim is already queuing for bread. He is nine and has an elder brother in hiding to avoid conscription to the Afghan army and a sister whose legs were blown off by a rocket.

Rahim is matter of fact about spending three to four hours each day queueing for the family's meagre ration of five pieces of nan for 30 Afghanis (about 30c). "It is war and only soldiers can eat meat," he says.

In a few days the Government will cut the family bread ration to three pieces and more than double the price.

It is four months since the last Soviet troops left Afghanistan after a nine-year occupation. Widespread predictions that the puppet regime of President Najibullah would quickly fall have proved false. Life is tough, food is scarce, yet life goes on in Kabul and President Najibullah looks, if anything, more secure.

Breadlines have formed every day since the Pakistan-based Mujahideen cut supply routes into the city many weeks ago. The economic blockade was intended to turn people against the Government and cause it to collapse from within.

Instead, the Government is using the strategy against the guerrillas – claiming, not without some justification, that the US-backed guerrilla leaders are living in great luxury in Pakistan while starving their own people.

Najimuddin Cawyani, a leading Politburo member, asks: "When it is our people who are sacrificing their lives to get food convoys to Kabul and the Mujahideen who are blocking them, who is responsible for the suffering?"

The shortages do not, however, affect the members of Government or President Najibullah's ruling People's Democratic Party of Afghanistan, whose tables can still offer fine wine and good meat. Defections have been prevented by providing coupons to Government employees, entitling them to free flour, sugar, vegetable oil and tea.

There is a universal and desperate shortage of fuel, with tiny children out collecting twigs every day, but aid officials say even this problem is not as bad as two months ago.

Jan Mohammad, President of the Peasants Co-operative Society, said: "We have shown against all adversity we can feed the people and administer the country. Who knows what the Mujahideen would provide when they cannot even administer the province of Kunar?"

The province is the only one the guerrillas have taken over since the Soviets left.

Mujahideen leaders in Peshawar, the Pakistani frontier town which serves as headquarters to the seven main resistance parties, admit they are worried that their strategy of laying siege to towns by closing off supply routes is being undermined by some of their own field commanders, who are accepting bribes to let trucks through.

Some food is now reaching Kabul from Pakistan, which means it is getting through Mujahideen-controlled areas in

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Moscow and Bonn bolster ties with co-operation pact

By David Marsh in Bonn

THE Soviet Union and West Germany yesterday signed a wide-ranging policy statement pledging both sides to human rights, disarmament and economic and environmental co-operation.

Signed on the second day of a four-day visit to West Germany of Mr Mikhail Gorbachev, the Soviet leader, the statement pledges the right to self-determination for "all peoples and states." Such a commitment could add to demands for free elections in Eastern Europe as well as to nationalist movements within the Soviet Union.

The declaration was followed by a forceful speech by Mr Gorbachev underlining Moscow's wishes to integrate its economy with the West and offering a role for German companies in "converting" defence industries to civilian uses.

Mr Gorbachev's visit to West Germany, and meetings with Chancellor Helmut Kohl have underlined a significant warming in ties between Moscow and Bonn.

The six-page document is the first time Mr Gorbachev has won formal approval with a Western country for his concept of a "common European home." The plan, in which both the US and Canada would play a part, was said yesterday to be a way of "overcoming the division of Europe."

The statement says that, because of Europe's suffering in two world wars, the continent had to play a leading role in stabilising peaceful relations.

The document condemns seeking of military superiority by either Nato or the Warsaw Pact and upholds exchanges of people and ideas between countries. "Everyone has the right to choose his own political and social system."

The joint declaration, billed as the political highlight of the visit, has been drawn up in painstaking work by the two foreign ministries over the past year. It expresses support for a range of disarmament steps including a 50 per cent cut in the superpowers' nuclear arsenals, conventional stability in Europe and a worldwide ban on chemical weapons.

It promises action to reduce the factors behind tension and mistrust to allow "step by step" easing of military threats and to establish confidence.

The document pointedly avoids going into the question of short-range nuclear weapons in Europe, where the Soviet call for elimination of missiles counters the official Nato line.

The two governments yesterday also signed 11 agreements to improve co-operation in a range of areas. Bonn will undertake to protect West German company investments in the Soviet Union while manager training schemes will be stepped up and cultural, youth and scientific exchanges intensified.

In a speech to industrialists in Cologne, Mr Gorbachev departed from his prepared text to say he was "moved" by the welcome he had received from ordinary people.

"I feel that your people and our people want to come together," he said. Mr Gorbachev and his wife Raisa were given an enthusiastic welcome by a large crowd on the Bonn market square yesterday. Mr Gennady Gerasimov, the Soviet government spokesman, said Mr Gorbachev felt as though he was on Red Square.

In his Cologne speech, while he admitted difficulties in Soviet economic restructuring, Mr Gorbachev promised reform of price controls and an anti-monopoly law as part of a further dismantling of the "command economy."

He also spoke of possible moves to join the Gatt world trading system, promising that the Soviet economy was trying to "open up" to the world. On a more critical note, Mr Gorbachev hit out at alleged discrimination against Soviet exports to the West and attacked the East-West technology regulations maintained by the Co-ordinating Committee on Multilateral Export Controls (CoCom).

Emphasising the warmth of political talks, Mr Gorbachev told a dinner audience last night that German-Soviet relations could be the "catalyst" of improved East-West ties.

West German President Richard von Weizsäcker, his dinner host, said that Germans and Russians wanted "peace [which] must be more than the mere absence of war." Security had to be underpinned by trust rather than by "an excess of weapons."

Call for greater industrial ties; Uzbekistan violence, Page 2

UK firms guilty on Gold Fields disclosures

By Richard Waters and Kenneth Gooding

TWO leading UK securities firms, Smith New Court and James Capel, yesterday pleaded guilty to charges concerning failure to disclose interests in the shares of Consolidated Gold Fields, the diversified UK mining group, in 1986. They are the first firms to be charged under section 212 of the Companies Act, 1985, which requires disclosure over interest in a company's shares.

At Guildhall Magistrates Court they were charged with failing to respond to requests from Gold Fields for information about the beneficial ownership of that company's shares held in nominee names.

Smith New Court was charged that on or about October 8 1986, in purported compliance with a section 212 notice served by Gold Fields, it "recklessly made a statement which was false in a material particular by indicating that the shares the subject of the notice were beneficially held by the company in the ordinary course of its business."

In the case of James Capel, the charge was that on or about November 13 1986, it failed to comply within seven days with a notice served by Gold Fields under the provisions of section 212 of the Companies Act 1985.

The magistrates refused to deal with sentencing and the case was adjourned until next Tuesday, when committal proceedings will take place and the case is expected to be referred to the Crown Court.

The Department of Trade and Industry, which brought the charges, investigated the circumstances surrounding the

Continued on Page 24

Thatcher tries to end doubts over economic policy

By Philip Stephens and Peter Norman in London

BRITISH Prime Minister Margaret Thatcher yesterday sought to restore sagging confidence in the pound after another sharp fall in sterling with a promise of "full, unequivocal and generous backing" for Mr Nigel Lawson, her Chancellor of the Exchequer.

Mrs Thatcher's comments marked a further attempt to quash speculation of a major rift on economic policy.

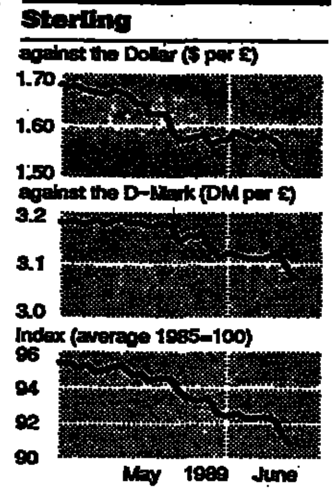
While her words provided some comfort for equity markets, sterling closed weak in London despite sales of dollars by the Bank of England to support the pound. Speculation was rife that the authorities may have to raise base rates sharply to rebuild international confidence in the currency.

Interest rates on the domestic money market yesterday discounted a rise in base rates to at least 14.5 per cent from 14 per cent. But many analysts suggested that the Bank would have to push up interest rates to as much as 15 per cent to rally the pound.

The Bank, however, gave a clear signal that it did not want any increase in base rates. It is thought to believe that such a step would not be justified by domestic economic conditions. Despite sharply higher retail sales last month, it believes the economy is slowing in line with the Government's objectives.

A further slump in sterling's value could force the Bank to change its mind. But in any event, action is unlikely until after tomorrow's European elections. By then the authorities will also have a clearer insight into inflationary pressures, with the latest average earnings data due for release tomorrow and the May retail price index on Friday.

Sterling



The British authorities were given some indirect support by foreign central banks which were intervening in currency markets to curb the dollar's rise.

After large scale dollar sales by the Bank of Japan overnight, both the US Federal Reserve and the Canadian central bank intervened by selling dollars for yen rather than D-Marks.

However, the pound closed in London near to its day's lows against the West German currency at DM3.0725 against DM3.09 on Monday and nearly a cent lower at $1.5160 ($1.5255).

The FT-SE 100 closed at 2,123, down 15.3. The dollar rose slightly to DM2.026 (DM2.025) and Y149.15 (Y148.5).

Papering over the difference, Page 24

Torras Hostench plans wide changes in investment tactics

By Peter Bruce in Madrid

TORRAS HOSTENCH, one of Spain's biggest industrial holding companies in which the Kuwait Investment Office (KIO) has a 40 per cent stake, is making far-reaching changes in investment strategy which could involve substantial withdrawals from two of its prime industrial sectors – paper and chemicals.

The changes, if implemented, would mark the end of possibly the fastest accumulation of industrial power in recent Spanish history and could herald a flush of new acquisitions in foods and services by Torras at home and in the European Community.

The group's vice president, Mr Javier de la Rosa, a Barcelona financier and the senior board member in Spain, said that Torras Hostench did not regard its paper subsidiary, Torras Papel, and its chemicals and fertiliser division, Ercros – a merger of Union Explosivos Rio Tinto (ERT) and Cros, a fertiliser company – as central to its future.

He said Torras was prepared to cut by half its 100 per cent stake in Torras Papel and its 40 per cent holding in Ercros.

He said Torras Hostench would build up Ebro, its foods division, and several financial and engineering service companies, all acquired in the past 18 months, as core businesses.

"We will look for other partners in Ercros and Torras Papel," Mr de la Rosa said. He is hoping to attract foreign buyers and said Torras had been attracted to Cros and ERT by their assets and to Ebro because of its profitability.

Torras Hostench is capitalised at almost Pta200bn ($1.5bn) on the Madrid stock market and is listed in New York and London. It owns 51 per cent of Ebro, a rapidly diversifying sugar refiner and 50 per cent of Beta Capital, a Madrid stockbroker, Amaya, an insurer and Expo, an engineering consultant.

Mr de la Rosa, who owns 15.8 per cent of Torras Hostench, introduced KIO to Torras in 1986 when it was still a modest Catalan paper manufacturer struggling out of bankruptcy. He has played a key role in transforming the group into Spain's biggest industrial conglomerate outside the state or banking sectors, with sales last year of Pta431bn and pre-tax profits of Pta16.5bn.

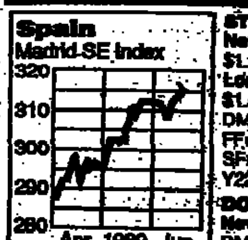
Selling a large part of Ercros could generate a considerable amount of controversy in Spain, largely because of the heated political row which accompanied the group's capture of management control at ERT last year. But, said an associate of Mr de la Rosa's: "We want to be number one in what we do. We cannot, in a European sense, be number one in chemicals nor number one in paper."

Torras Papel recently bought Cellulose des Ardennes, a Belgian pulp producer, and is negotiating to buy a paper producer in France.

The rise of an acquisitive playmaker, Page 14

MARKETS

Spain Madrid SE Index



INTEREST RATES
US lunchtime
Federal Funds 9¼% (same)
3-mth Treasury Bills: yield: 8.42% (8.47)
Long Bond: 108½ (108⅞)
yield: 8.24% (8.13)
London
3-month interbank:
close 14⅛% (14⅛)

STERLING
New York lunchtime
$1.5220 (1.5295)
London:
$1.5160 (1.5265)
DM3.0725 (3.0900)
FFr10.4150 (10.4650)
SFr2.6550 (2.6755)
Y226.0 (227.0)

DOLLAR
New York lunchtime
DM2.0180 (2.0200)
FFr6.8435 (6.8450)
SFr1.7480 (1.7465)
Y148.05 (148.60)
London:
DM2.0260 (2.0250)
FFr6.8700 (6.8650)
SFr1.7520 (1.7550)
Y149.15 (148.50)

GOLD
New York latest
Comex August $366.9 (366.6)

STOCK INDICES
New York lunchtime
Dow Jones Ind. Av. 2,497.76 (-21.08)
S&P Comp 323.78 (326.24)
London:
FT-SE 100 2,123.0 (-15.3)
World: 138.99 (Mon)
Tokyo
Nikkei Ave 33,213.55 (-184.46)
Frankfurt
Commerzbank 1,775.2 (-8.8)

OIL
Brent 15-day (Argus) $16.5 (-0.305) (July)
West Tex Crude $19.395 (-0.08) (July)

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Papandreou's sun threatens to set in Greece

Sunday's general election is the most critical faced by Andreas Papandreou and his Pan Hellenic Socialist Movement since the movement was launched following the collapse of the military dictatorship in 1974. Page 3

Deaths reported as Sofia quashes unrest

By Judy Dempsey in Sofia, Bulgaria

OVER a dozen people have been killed and scores injured as the Bulgarian authorities attempt to quash the growing unrest among the ethnic Turkish community in Kurzhali, in the south-east of the country.

Unconfirmed reports reaching Sofia from Kurzhali, a region closed to foreigners, say that over the past week the police moved in after the ethnic Turks held strikes and demonstrations in protest at the suppression of ethnic and cultural rights.

The latest spate of violence against the Turkish minority follows disturbances last month in the north-eastern towns of Razgrad, Todor Ikonomowo and Kaolinowo. Officially, three people were reported killed. But Turks arriving in Belgrade and in Ankara speak of much higher casualties.

The Bulgarian party press continues to deny the existence of a Turkish minority, even though the authorities are issuing the Turks with passports and exit visas to leave for Turkey.

Since late May, 14,000 Turks have been given passports and exit visas. The expulsions have rapidly accelerated to between 3,000 and 5,000 a day since last Monday, an indication that the forced assimilation policies introduced in 1984 have failed.

In addition, the news media continue to widely quote a recent speech by Mr Todor Zhivkov, the Bulgarian President and party leader, in which he unashamedly appealed to Bulgarian nationalists to "counter the anti-Bulgarian campaign" which is allegedly being engineered by neighbouring Turkey.

Since then, the authorities have organised what amount to nationalist-inspired demonstrations against Turkey and "other countries".

Bulgarian refugees tell of expulsion

By Jim Bodgener in Edirne

BATTERED cars and jumbles of household goods clogging the Turkish border post with Bulgaria at Kapikule yesterday were ample evidence of the recent forced expulsion of Moslem communities from Bulgarian towns and villages by security forces.

Yesterday morning alone, 3,000 more refugees arrived in a steadily-rising tide which has numbered more than 20,000 over the last few weeks.

Bulgaria now appears to be taking advantage of the open border, announced in mid-May by the Turkish government, to rid itself of those members of the 1.5m Turkish minority who have refused to renounce their ethnicity in a four-year "Bulgarisation" campaign.

Deportees spoke bitterly yesterday of the brutal force used by the Bulgarian police and army to crush demonstrations in May protesting at the authorities' campaign.

"I am calling on world opinion to condemn such forced deportations," said Professor Erdal Inonu, leader of the main opposition Social Democratic Populist Party, on a visit to Kapikule yesterday. He accused the Turkish government of not taking a sufficiently active line on the issue.

However, increasingly belligerent statements condemning Sofia have been made recently by the Turkish Prime Minister, Mr Turgut Ozal.

Some activists belonging to ethnic Turkish resistance organisations were among the deportees who arrived yesterday, but most were ordinary peasants and townspeople torn suddenly from homes and jobs. Harried by police truncheons and dogs, they had received at most 12 hours' notice to leave.

"We are taking in these people who have been oppressed and thrown out of their country," said the governor of Edirne province, Mr Unal Erkan, yesterday. He said no distinction had been made between Turks, "Pomaks" (Bulgarians Islamicised centuries ago) and gypsies.

Many deportees have relatives and friends ready to accommodate them in Turkey but housing is available for the homeless, he said. Each refugee was given TL50,000 (£16) and such food and other essentials as required, he said.

The deportees said that during the Bulgarisation campaign, children had been beaten at school for speaking Turkish, people had been intimidated against praying in the few mosques that have not been closed and protesters had been fired or demoted from jobs.

"We wore two faces," said one. "Inside our houses we were Moslems and outside we were Bulgarians."

Hungarian party begins talks with opposition

By Leslie Colitt

IMPORTANT "triangular table" talks began yesterday in Budapest between the Hungarian Communist leadership and the non-Communist opposition on the holding of the first free elections next year to a new parliament.

A breakthrough was achieved last weekend when the Communist Party agreed to negotiate with a joint delegation of eight opposition groups. It had previously insisted on talking only with the individual groups.

Yesterday's talks in the Hungarian Parliament, carried live by Hungarian TV, were held at a three-cornered table, in contrast to the round-table talks earlier this year between the Polish authorities and the Solidarity opposition. The third delegation was made up of Communist-affiliated social organisations. Mr Matyas Szűrös, president of Parliament and a leading party reformer, presided over the meeting.

The eight political groups making up the opposition joined forces to strengthen their negotiating position with the ruling party. Mr Ferenc Köszeg, head of the Alliance of Free Democrats, said the talks on the creation of a multi-party system were significant, as the party had previously tried to split the opposition.

The Hungarian Communists had sought without success to achieve a coalition with leading opposition groups well before the election. The goal was to draw the fledgling parties into responsibility for the serious economic and social crisis as well as assuring an electoral majority for the party, whose popularity has dropped to a new low.

Among the opposition groups represented at the talks are the Social Democrats and the Small Landowners, the two leading parties before the banning of all non-Communist parties in 1948.

Meanwhile, the increasingly sharp divisions in the leadership emerged into the open this week when Mr Károly Grósz, the Communist Party leader, acknowledged that a struggle for power was taking place. He told the party newspaper Nepszabadsag that some members of the leadership advocated taking Hungary out of the Warsaw Pact.

Mr Grósz's accusation was seen in Budapest as an attempt to make the reformers look like "adventurers" and to discredit them in the eyes of the Soviet leadership.

Fundamentalism blamed for Uzbek rioting

By Quentin Peel in Moscow

MR Mikhail Gorbachev, the Soviet leader, warned yesterday that Islamic fundamentalism was involved in the race rioting which has left at least 90 dead and more than 900 injured in the Soviet republic of Uzbekistan.

"It is not only a question of inter-ethnic relations, but fundamentalism has bared its teeth," he told newspaper correspondents in Bonn, in his direst warning yet of the dangers of the ethnic violence plaguing the Soviet Union.

However his claim was immediately rejected last night by leaders of the Meskhetian Turkic minority which has been the object of murderous attacks by marauding bands of Uzbek youths in the Fergana valley.

"We are all Moslems," Mr Remis Saidov, vice-chairman of a temporary organising committee for the minority group, told a public meeting in Moscow. "It is not a religious quarrel. It is on social grounds."

He said both groups involved had flown the green flags associated with the Iranian revolution, ominously reported by Soviet television.

The Uzbek majority belong to the Sunni branch of Islam, while the Meskhetian Turks are Shia, but Mr Saidov denied any religious element in the strife.

However the Turks attending the meeting in Moscow did claim that there was clear organisation behind the riots.

"I think this is a group of people against the democratic process," one speaker told the meeting. "There is no doubt this was planned to coincide with the Congress" – the first session of Mr Gorbachev's newly-elected parliament.

Mr Ashtarkhan Turanov, a driver from Fergana who escaped three days after the riots began, said the crowds of Uzbek youths appeared to be well-organised, and to have Molotov cocktails already prepared.

"They attacked our women and children," he said. "They stripped them naked. They grabbed their earrings and tore them from their ears. They forced the women to run naked through the streets. Even fascists don't do anything like that."

He said they were "highly organised, with the participation of the militia".

Mr Saidov claimed that bottles of vodka were supplied to the drunken crowds by the KGB.

The Soviet authorities have launched a massive security operation to bring the violence under control, with Interior Ministry troops in the area now numbering between 11,000 and 12,000, the ministry said.

It said that the official death toll was now 90, but "we are still finding corpses in burned-out houses. The majority are Meskhetians. The figures are subject to change, and the situation remains complicated."

Mr Nikolai Ryzhkov, the Soviet Prime Minister, was spending a second day yesterday in the strife-torn area, where the local authorities appear to have abandoned all attempt at control. Television pictures show the local party and government headquarters surrounded by rings of central government troops.

Moscow anxious to avert Islamic unrest

The Kremlin fears Moslem anger could be redirected northwards, says James Blitz

THE violent unrest in Uzbekistan is not over. On Monday, the sudden mission to the region by Mr Nikolai Ryzhkov, the Soviet Prime Minister, and the former KGB chairman, Mr Viktor Chebrikov, suggested continuing turmoil.

Yesterday, that view was reinforced by Mr Gorbachev on his visit to Bonn, where he told reporters: "The situation is still unsettled."

More ominously, the Soviet leader suggested that the inter-ethnic violence, unparalleled in the USSR in the Gorbachev period, was not just a matter of local ethnic differences: "[Islamic] fundamentalism has bared its teeth," he said yesterday. That movement can turn against Soviet authority if it is allowed to.

The violence in the Fergana area, in which over 100 people have been killed in the last week, has been conducted by Moslem Uzbeks against the local Meskhetian population. The Meskhetians are ethnically Turkish Moslems whom Stalin deported from Georgia and resettled in Uzbekistan in November 1944, shortly before he launched an attack into neighbouring Turkey. Stalin's fear at the time was that the minority might go over to the Turkish side in battle.

Forty years later, the settlers are despised in their homeland by the local population. The Meskhetians are Shia Moslems, while the Uzbeks are Sunni. Many Meskhetians have retained their Georgian-sounding surnames.

Even before the latest troubles, the 150,000 Meskhetians felt sufficiently uneasy about their situation to have repeatedly demanded to return to Georgia. The Kremlin has tried to grant the request, but the fiercely nationalist and mainly Christian Georgians have successfully checked the return of thousands of Moslems to their republic.

Meskhetian women gather at a refugee camp in Fergana, Uzbekistan, after an outbreak of violence

What seems to have exacerbated the plight of the hapless minority now is the poor economic situation in Uzbekistan. The existence of unemployment in the republic is not officially admitted, but any Uzbek will tell you it is widespread. In such a situation, an alien group is an easy target for violence by local people.

Mr Ryzhkov's first concern will be to ensure that the feud spreads no further. One danger is that Islamic militancy might switch its target from the Meskhetians to neighbouring Tadjikistan, whose people are ethnically different. But it would be more serious if the build-up of Uzbek and Islamic nationalist feeling now directed against the Meskhetians were to switch towards Russian domination. That is a possibility which no Soviet official should underestimate.

The strong Uzbek national feeling is intertwined with the prevalence of Islam, a religion which affects the lives of most of the 5m people in the republic, whether or not they are believers. Moslem women are, for example, reluctant to marry Europeans living in Uzbekistan and workers in Central Asia are said to resist pressures to migrate to other regions to find jobs.

In recent months both the Kremlin and the local Communist Party have conducted a vigorous campaign to keep Islamic fundamentalism at bay. A string of concessions was made to religious leaders in Central Asia this year, including an increase in the number of exit visas allocated to Moslems to undertake the Haj to Mecca, and the return of one of the earliest Korans to the Islamic authorities by the Soviet state.

But this has not dampened local fervour. Visitors to Tashkent will search hard for local people singing Moscow's praises, but plenty have grievances against it. The most commonly aired is that the Kremlin has forced Uzbekistan to grow cotton for export to other needy republics, whereas local officials would far rather convert farmland to grow essential vegetable crops.

With such potential for unrest, the local party leadership in Uzbekistan must be tough with nationalists and fundamentalists, and it has been. In the recent poll for the Congress in Moscow, few nationalists were allowed to stand for election, and the local party leadership is openly and fiercely pro-Moscow. In an interview with Pravda in November 1988, Mr Rafik Nishanov, the Party First Secretary in the Republic, said: "No nation represented in the Soviet Union can assure its further development without the others."

In the present crisis, however, the Kremlin is probably less than happy to leave matters in the hands of the Uzbek Party.

Mr Nishanov has not been in charge for long and the party leadership in Tashkent has a reputation up in Moscow for being sluggish under the hot Central Asian sun.

Nor will it ever get rid of the stain of corruption: the cotton scandal in the region, which felled the late President Brezhnev's son-in-law, has claimed so many party officials that Moscow cannot be sure who will go next.

In one respect, the crisis in Fergana is less politically dangerous for Mr Gorbachev himself than other nationalist problems that have plagued him: he can always claim that, far from being a consequence of his political liberalisation, the violence against the Meskhetians is the direct result of another one of Stalin's abominable decisions.

But that excuse counts only as long as the violence is kept under control. That is the main reason why Mr Ryzhkov is in the region now. His presence tells local people that the Kremlin sees Uzbek and Islamic issues as Soviet ones and nobody should imagine otherwise.

Gorbachev calls for more German links

By David Marsh in Bonn

MR Mikhail Gorbachev, the Soviet leader, yesterday tempted a packed meeting of West German industrialists with a range of proposed co-operative ventures to put German-Soviet industrial ties on to a new footing.

Mr Gorbachev suggested use of Soviet rockets for German satellite launches, joint shipbuilding ventures on the world market, German use of Soviet scientific research facilities, and co-operation in electronics, the nuclear industry and aeroplane manufacture.

In a remark probably viewed as starry-eyed by many hard-headed German industrialists, he even suggested that Soviet electronic apparatus could replace Japanese products in German factories.

In an hour-long speech in Cologne before representatives of the Federal Republic's leading East bloc trading companies, Mr Gorbachev criticised restrictive western technology transfer rules and called for increased German investment in Soviet joint ventures. He also said the West gave insufficient access to Soviet goods because of fears of competition.

Mr Gorbachev was uncompromising about problems facing the Soviet economy. Departing radically at times from his prepared remarks, Mr Gorbachev admitted: "We have great difficulties with our leading employees." He stressed that there would be no going back to the pre-reform period of "economic stagnation", but underlined that "in present circumstances it is not possible fully to open ourselves to the market."

The Soviet leader referred to statements by Mr Hans-Dietrich Genscher, the West German Foreign Minister, pointing to the risk of a "technological split" between eastern and western Europe. "The danger is real," said Mr Gorbachev. He paid particular tribute however to West German efforts to train Soviet managers. A formal agreement on the training programmes was among 11 individual bilateral accords signed in Bonn yesterday.

West Germany is by far the Soviet Union's biggest western trading partner. But, reminding the Federal Republic that it was the world's largest exporter, Mr Gorbachev termed as "laughably small" the present volume of German-Russian trade of about DM15bn to DM20bn a year.

The Soviet leader was reminded of reality in remarks by Mr Otto Wolff von Amerongen, chairman of the Ost-Ausschuss committee of East bloc trading groups, which organised yesterday's meeting.

Mr von Amerongen agreed that trading exchanges were modest but said the total would only permanently improve if the Soviet Union overcame weakness in its export structure. He said Soviet economic decentralisation since April was "a step in the right direction", but added that an "over-powerful" Soviet bureaucracy had to be reduced to allow room for individual initiative.

Mr Gorbachev said 73 German-Soviet joint ventures had been set up – a larger figure than stated from the German side so far. However, invested German capital was only Rs77m (£77m), which he said was far too little. Mr Gorbachev said his country was trying to overcome hurdles to joint investment by improving organisation and information on the Soviet market, but called on German companies to show vision in tackling it.

Polish leaders will not stand

By Christopher Bobinski in Warsaw

SEVERAL TOP Polish Communist Party officials, as well as the leaders of the smaller allied parties and Catholic groups, have decided not to stand for Parliament in supplementary elections on Sunday, after failing to get 50 per cent of the national vote on a "national list" of 35 prominent official names in elections on June 4.

The group includes Mr Mieczyslaw Rakowski, the present Prime Minister, who got 8.2m votes but fell 1.2 points short of the half-way mark, and Mr Roman Malinowski, the present chairman of the Parliament and leader of the Peasants Party, who with 7.9m votes got 46.5 per cent of the ballot.

The decision means that the smaller parties, which together with the Communists are to hold 65 per cent of the seats of Parliament's lower chamber, the Sejm, will have to choose new leaders with parliamentary mandates if they want to be led from the chamber where Solidarity controls 35 per cent of the seats.

The problem of the failure of all but two on the national list to get into Parliament under election rules, which made no provision for such an eventuality, has provoked a minor crisis, as the authorities and Solidarity, which wanted to see the party leader in Parliament, searched for ways of filling the vacancies.

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Ministers will hear critical report on frontier formalities

EC border measures falling behind

By William Dawkins in Brussels

EC Governments are in danger of slipping seriously behind schedule in agreeing measures to scrap frontier formalities, says a critical report adopted by the European Commission yesterday.

Brussels' latest annual update on the progress of the EC's 279-point plan for a free internal market criticises governments sharply for dragging their heels on politically sensitive parts of the project. It will be presented to what looks set to be an action-packed meeting of EC Trade and Ministers in Luxembourg today.

The study, by Mr Martin Bangemann, Commissioner for the Internal Market and Industry, concedes that member states are moving faster than expected in agreeing technical barrier-breaking plans, such as the promotion of EC-wide technical rules, the abandonment of exchange controls, and mutual recognition of professional qualifications.

But they need to make progress fast on other plans for freer movement for individuals, common rules on plant and animal health and the approximation of VAT and excise duties, agreement on which would remove the main reasons for the physical existence of internal EC customs posts. Progress is also slow on a proposed EC patent and other industrial property rules, the report adds.

"No specific measures have yet provided tangible evidence of the political will to abolish frontier inspections," says the study, which accuses governments of failing as a result to bring home the 1992 ideal to average citizens.

It also condemns member states for failing to put into effect the directives on which they have managed to agree. Only two of the 68 internal market proposals due to have been implemented in national law by now have been incorporated into all 12 member states' legislations. Brussels is "concerned about the impact of this state of affairs on the credibility of the objective," the report warns.

Member states have agreed fully or partially on 134, nearly half, of the market-opening measures in the internal market plan. A further 97 are still under debate in the Council of Ministers – the source of delay – while the remaining 48, mainly to do with plant and animal health, have yet to be tabled by the Commission.

Greater use of majority voting has meant faster decisions, the report confirms. Revealingly, no big internal market accord has been possible in areas requiring member states' unanimity, like VAT approximation or the free movement of people.

The report marks the new Commission's determination not to let EC governments backtrack on their acceptance, given at last summer's Hanover summit, that the EC single market is irreversible. "The time has come for member states... to go beyond simple statements of good intentions," says the study.

Today's ministerial meeting has the opportunity to reach initial or final agreement on 20 mainly technical proposals, including 18 which will help curb trade restrictions between EC members. The session, under the chairmanship of Mr Pedro Solbes, the Spanish Secretary for EC relations, promises to be an important highlight of Madrid's Community presidency, due to pass to France at the end of this month.

Diplomats expect agreement on plans to boost free competition for public works contracts and to help failed bidders appeal in national courts. Agreement is expected on five food and drink quality and packaging regulations, including common rules for checking food imported from other member states. This almost completes the internal market in foodstuffs, awaiting two forthcoming rules on irradiation sterilisation and the labelling of health foods.

However, ministers look as if they will fail today to seal the final adoption of a common legal framework for cross-frontier television broadcasting because of detailed last minute objections by a blocking minority of governments, including West Germany, France, Denmark and the Netherlands. Commission officials expected these problems should be settled soon after this week's European elections, though some diplomats questioned their optimism.

EUROPEAN NEWS

Decision by September on MBB-Daimler merger

By Leslie Colitt in Berlin

A PUBLIC hearing will begin next month on whether to allow the planned big merger of Daimler-Benz with MBB, and a final decision will be reached by September, Dr Otto Schlecht, State Secretary in the West German Economics Ministry, has told the Cartel Office annual meeting.

The Cartel Office in West Berlin earlier ruled against the merger, arguing that it would give the giant new company a market-dominating position in key areas. The Economics Ministry, however, can overrule it on grounds that the overall economic advantages of the merger outweigh any restriction of competition.

Dr Schlecht said that while he did not want to predict the ministry's final ruling, the central question would be whether the merger could be justified by the chances of "privatising managerial risks" and reducing state subsidies.

He spoke against a background of a growing number of merger bids by leading German companies. The big energy concern VEBA is seeking to take control of Feldmühle, while Fried. Krupp wants to merge with Salzgitter and the recently-privatised Viag aims to take over Klöckner, one of West Germany's largest trading houses.

Dr Schlecht said that in the runup to the unified European market there was no need for companies to get bigger "in order to become more competitive". Quicker and more agile medium-sized companies would prevail over the big companies. He suggested that an effective European merger control to prevent the growth of European monopolies would not come about before the year 2000. In the meanwhile West Germany would stress maintaining competition at home.

"Europe must not become an exclusive event for big companies or a playground for industrial-political ambitions," he said.

Prof Wolfgang Kartte, head of the Cartel Office, said it had ruled against only eight mergers in the past two years, but 26 other companies had put aside merger plans after informal contacts with the office.

De Mita asked to try again

By John Wyles in Rome

PRESIDENT Francesco Cossiga yesterday brushed aside unusually brusque demands from Italy's two main governing parties that he let the country's political crisis tick over inconsequentially for another week, and chose instead to give the outgoing Christian Democrat prime minister, Mr Ciriaco De Mita, the mandate to form a new government.

Although Mr De Mita himself admitted later that no serious negotiations among the five potential governing parties could start until after Sunday's European elections, Mr Cossiga's sense of duty prevented him from leaving a political vacuum after the three and a half weeks of creative time-filling endeavour that he had organised since the crisis broke.

Both Mr Arnaldo Forlani, the leader of the Christian Democrats (DC), and Mr Bettino Craxi, the Socialist Party secretary, had told the president they wanted a further week of exploratory soundings until the European results were in. These could profoundly influence the balance of power among all the political parties and will be a decisive factor in the subsequent negotiations on the leadership, content and policies of the next government.

Evidence from recent local elections that a tide is flowing away from the Communists (PCI) towards the DC and the Socialists has come from a regional poll on Sunday and Monday in Sardinia. The PCI vote on the island slumped from 28.7 per cent in 1984 to 23.1 per cent, while the DC vote rose from 32.2 per cent in 1984 to 34.9 per cent. The Socialists have advanced in Sardinia, from 10.1 per cent in 1984 to 13.9 per cent this week.

These results are generally being interpreted as "a vote for stability" to encourage the DC and the Socialists to agree a new basis for a coalition.

In time-honoured fashion, both Mr Craxi and Mr Forlani are stressing the difficulties surrounding this task since, for different reasons, both will be seeking a pretext for denying Mr De Mita a second term as premier.

The prime minister and his faction lost a power battle at the party's congress in February. Formally he remains the DC's first-choice nominee as prime minister, but his political leverage in his own party is much reduced.

Officers accused over airliner crash

By John Wyles

A PROSECUTING judge in Rome yesterday lit the fuse to a potentially serious controversy by opening a criminal investigation into allegations that Air Force officers have covered up evidence which could help explain the disappearance into the sea nine years ago of an Itavia DC9 civil aircraft.

The move will provoke strong protests from the Italian Air Force, cleared of any dubious conduct in the affair as recently as last month by a committee of inquiry set up by the prime minister, Mr Ciriaco De Mita.

Following countless investigations, which have included raising much of the wreckage from the seabed near the island of Ustica north of Sicily, the judge, Mr Vittorio Bucarelli, is finally being seen to give credence to a thesis long held by the families of the 81 victims that key evidence has been withheld by the military authorities.

The charges which 15 officers will have to answer include false testimony and the destruction of evidence. They were on duty at the radar stations at Icola, near Naples, and Marsala in Sicily on the night of June 27 1980, when, according to the most widely-held theory, the DC9 was shot out of the sky by a missile.

Public suspicions of a cover-up have been based on the inadequacy of the radar records of air traffic around Ustica on the night of the disaster. The Marsala station has produced a recording tape beginning with an eight-minute gap beginning shortly after the loss of the DC9.

Pasok's sun threatens to set

Papandreou awaits Greece's verdict, writes Andriana Ierodiaconou

IT HAS been a standing Greek political joke to wonder whether the green half-sun on the horizon constituting the emblem of Dr Andreas Papandreou's ruling Pan Hellenic Socialist Movement (Pasok) is rising or setting.

Voters in the Greek general election on Sunday will be called upon to answer the question.

The contest is the most critical faced by Pasok and Dr Papandreou personally since the "movement" was launched on the wave of the anti-Americanism that followed the collapse of the Greek military dictatorship in 1974.

The signs are not auspicious for the Socialists. The dream of *allaghi* (change) that swept Pasok to power with 48 per cent of the vote in 1981 today lies in ruins. Pledges to render government efficient and improve the quality of life have been stripped of credibility. The economy is suffering from double-digit inflation and massive public sector deficits.

On the foreign policy front the early years of flirtation with disreputable Middle East and East-bloc regimes have blotted Greece's image. And radical supporters have been denied the consolation of seeing pledges to quit the North Atlantic Treaty Organisation and close down the American bases fulfilled.

Discredited as the Socialists are in these terms, the tide carrying Pasok forward might still not have turned had it not been for the events of the past 10 months. These began with Dr Papandreou's collapse with acute cardiac problems in August 1988 requiring triple bypass surgery in London.

Then there was the massive fraud scandal involving former banker and press baron Mr George Koskotas, which has led a parade of Socialist officials to prison and cast dark shadows over Dr Papandreou himself.

Combined with the 70-year-old premier's publicly avowed extra-marital liaison with a much younger woman, these events sent shock waves through Pasok's grassroots, caused rifts in the hierarchy and all but destroyed the Socialists' key card – the charismatic image of the Prime Minister.

Although Dr Papandreou is still tolerated at the helm as the only figure who can stave off an outright split in Pasok before the elections, a defeat is almost certain to generate pressure for the appointment of a successor.

Scandal-ridden politics have inevitably spawned a scandal-mongering election campaign, in which substance has been almost completely overshadowed by mud-slinging and gossip regarding the private lives of the nation's politicians.

Meanwhile the Socialist fall from grace is reflected in the opinion polls, which show Pasok running a poor second to the conservative opposition New Democracy (ND) party led by Mr Constantine Mitsotakis.

Mr Mitsotakis, who headed ND at the time of its second defeat to Pasok in 1985, is fighting his own battle for political survival. The banner three slot is claimed by the Alliance, an electoral coalition of the Eurocommunist and orthodox wings of the Greek Communist movement, which split in 1968. A scattering of 22 small parties of all political shades follows.

Both ND and the Communists are running on a platform of "catharsis" – bringing those implicated in the Koskotas scandal to justice and ridding Greece of political corruption.

The result will depend critically on the large bloc of undecided voters, estimated at between 12 and 16 per cent of

● Papandreou and his Socialists face their most critical election ever

the electorate, in a country where voting is compulsory.

At the moment it looks as though the Conservatives will win most votes though it is by no means certain they will secure a workable majority in the 300-member parliament. This will depend on a complex interplay between the size of ND's lead against the second party and the percentage of votes scored by the third.

There are, however, still those who invoke Dr Papandreou's reputation for walking on political water to predict, if not a surprise victory, then a "tactical defeat" for Pasok with 35 per cent or more of the vote. The Socialists' hope would then be to woo the Alliance into a coalition.

Should this come to pass, the Premier will not owe it to a miracle. Pasok is likely to draw support from the countryside, which has done well out of the last eight years of European Community membership and is less sensitive than the urban centres to Pasok's mismanagement of economic or foreign policy.

Provincial voters are also relatively isolated from the daily barrage of revelations in the Athenian press regarding the Koskotas scandal or Dr Papandreou's domestic life, relying for information on the crudely propagandistic state-controlled television.

Dr Papandreou may also benefit from those who will vote for Pasok to safeguard their jobs in the public sector, secured under a system of patronage which the Socialists inherited from the Conservatives and perfected.

Then there are the voters beguiled by the ruling party's raw populism and swayed by revanchist calls to vote Pasok "to keep out the Right".

If the Conservatives fail to win a majority of seats, a period of uncertainty is likely to follow. Mr Mitsotakis has expressly ruled out the possibility of a post-election coalition with any force, including moderate elements in Pasok. The Alliance excludes a coalition with the Socialists as long as they continue to be led by Dr Papandreou, leaving open the possibility of co-operation with at least one section of Pasok minus its present chief.

If a viable coalition government cannot be put together, repeat general elections could be held within two months.

Meanwhile the campaign is closing amid mounting fanaticism, which has in some instances erupted into ugly clashes between Pasok and ND supporters.

For the main part however the Greek public has been busy following the Premier's "quickie" divorce – issued in record time, nine days before the elections – and remarriage plans, and speculating on the interplay of money, power and political intrigue in the Koskotas affair.

Constituency Profile: Ulster

EC one of many threats in this personality poll for Paisley

By Kieran Cooke in Belfast

THE Big Man is in town. Mr Ian Paisley, the booming, outspoken voice of fiercely loyalist Ulster for more than two decades and European MEP seeking relection, is doing his vote-catching rounds.

The Royal Crown Flute Band in Newtownards, a staunchly loyalist town about 15 miles outside Belfast, is at the ready. Mr Paisley, silver hair and white mack, places himself under the "In God We Trust" banner. A whistle blows and the drums roll. The flutes break into The Dambusters March.

Mr Paisley, founder and leader of Northern Ireland's Democratic Unionist Party, has been a European MP for the last 10 years. Northern Ireland has an electorate of just more than a million and is treated as a single constituency for European elections, with three seats in Strasbourg. At the last election in 1984 Mr Paisley was by far the most popular candidate, winning 230,000 votes, and he look certain to do it again, albeit perhaps with a slightly reduced following.

His message is a simple one which has altered little through the last 20 years of Northern Ireland's "troubles". Ulster is under siege. The British Government, unless constantly harangued, is ready to sell "the province we love" to the "priest-ridden republic" in the south.

Mr Paisley, who has stood as an Independent in the European Parliament, is "the free, unfettered voice defending Ulster in Europe". His election literature displays the Ulster flag and those of the EC countries, with the exception of the Irish tricolour.

Mr Paisley says Ulster has few friends in Strasbourg. Only he is able to counter the malicious propaganda of Ulster's enemies. "Vote Paisley" election flyers boast of the Presbyterian minister's verbal assaults in Strasbourg on "the Prime Minister of the Irish Republic, the Republic's President, Margaret Thatcher and the Pope."

The Single European Act threatens sovereignty and increases Dublin's influence in Northern Ireland's affairs.

The proposed elimination of border controls in 1992 will create serious security risks. Mr Paisley says that through the EC Northern Ireland's taxpayers are subsidising the Republic of Ireland's economy.

At the last European elections voter turnout in Northern Ireland, at 63 per cent, was almost twice that in the rest of Britain. But the poll tends to be more a personality test than a discussion of EC issues.

Mr John Hume, leader of the mainly Roman Catholic Social Democratic and Labour Party, and Mr John Taylor of the mainly Protestant Official Unionist Party, have been the other Northern Ireland MEPs since 1979. Mr Taylor is not standing this time. Mr Hume, who is an odds on favourite to be elected again, is deeply frustrated by what he sees as the Government's, and the media's, failure to encourage interest in European issues.

"French TV has invited me to talk about Europe. But in Northern Ireland the media is just not interested," he says.

A committed European, Mr Hume feels that as frontiers break down in Europe Northern Ireland will be forced to look outwards.

"People here have been examining their own navels for far too long. That's been a large part of the problem. A more integrated Europe offers tremendous advantages to Northern Ireland."

The SDLP has its own comprehensive European plan for the province. Mr Hume says the British Government's plans are aimed at using European funds as a substitute for its own spending in Northern Ireland.

"Northern Ireland is one of the most disadvantaged areas in Europe. We must have additional funds for development," says Mr Hume.

There are 10 candidates for this election. Danny Morrison is again standing as a candidate for Sinn Fein, the IRA's political wing. The main interest here will be not on Sinn Fein's European policies (it advocates a negotiated withdrawal from the EC) but on the share of the nationalist vote Mr Morrison manages to win.

For most people in Northern Ireland the European election is not about European issues. It is just one more test of the relative strength of the divisions in the province.

China's bloody tragedy fails to deter eager Japanese businessmen

Stefan Wagstyl reports that moral outrage and business are kept strictly apart by Peking's second-biggest trading partner

JAPANESE businessmen were booking their aircraft seats back to China almost as soon as they had got off the emergency rescue flights which had whisked them out of Peking.

The first large contingent of a few dozen executives was due to leave Tokyo for China today, with more expected to follow in the next few days. The speed of their return is a measure of Japanese confidence that the Communist Party is restoring order in China, albeit at immense cost in human suffering.

Japanese businessmen believe they cannot afford to waste time - even risking foreign criticism, voiced by one US politician, of being over-eager for profit in the face of China's misfortunes. The investment they have made in the China trade is too big to neglect, the future potential of China too large to ignore.

Japanese businessmen are not unaware of the enormity of the tragedy. Mr Takashi Ishihara, chairman of Nissan Motors, drew widespread public praise for a forthright condemnation of the Chinese leadership. But most executives argue that moral outrage and business should be kept strictly apart.

Mr Keikichi Honda, a director of the Bank of Tokyo, says: "Brutality against human rights is something to be condemned, but I don't think the rest of the world should punish China with economic sanctions. I don't think that would help."

His view echoes that of the Japanese Government which has simultaneously criticised violence in China and ruled out sanctions. Mr Tokio Katayama, director of the north Asia division in the Ministry of International Trade and Industry, says: "The Japanese Government wants to continue co-operating with China in the modernisation of its economy."

According to reports in Tokyo, the Chinese Ministry for Foreign Economic Trade this week issued a special statement welcoming Japanese businessmen back to China.

Nevertheless, even those most optimistic about the future concede that the recent turmoil has had a powerful impact on economic links between the two countries. It is too small to have much effect on the diversified Japanese economy, but could compound China's serious economic difficulties.

Japan is China's second largest trading partner after Hong Kong and is the third biggest source of direct investment after Hong Kong and the US.

The Japan External Trade Organisation, a government-funded body, estimates that two-way trade this year could fall by 30 per cent from the 1988 total of $19.4bn.

Raw materials shipped in bulk from China - including oil and coal, metals, and food - will probably continue to be traded in accordance with existing contracts. The worst-hit trade will be in Chinese textiles, which account for nearly a quarter of total imports into Japan, Jetro forecasts.

However, Mr Takaaki Yokota, research director at the Japan China Association of Economy and Trade, says Jetro's forecast is too pessimistic. He believes a 20 per cent decline in trade is possible.

The main short-term imponderable is how quickly Chinese corporations will recover from the upheaval - which, bloodshed aside, has brought economic havoc, especially to transport.

Several Japanese exporting companies have warned they will stop shipping goods from next month because China has not sent out necessary letters of credit to cover the orders. Chief among these are the steelmakers, which sold $2.5bn worth of metal last year. Matsushita Electric, the electronics combine, has stopped producing televisions for export.

However, many temporary breaks in business are likely to be restored in the next two weeks or so. Nippon Express, a multi-divisional transport company which suspended air shipments to and from China on June 4, resumed carrying small packages yesterday. Its sea service remains suspended.

Companies will act on the reports the executives flying back to Peking will send to Tokyo. In the long term, everything depends on the future course of events in China, but on the assumption that the present Communist Party leadership retains control, Japanese businessmen believe that China will continue its open-door economic policy.

The rate of growth of trade and investment will slow, however, partly because of uncertainty and partly because of a need by China to depress economic growth in order to attack inflation.

Investment in China has grown since the mid-1980s, with many leading companies establishing joint ventures. Investments in the year to March are worth a total of $300m.

Both sides had been anticipating a sharp increase following the announcement of a bilateral investment agreement during a visit to China by Mr Noboru Takeshita, the Japanese Prime Minister, and confirmed in April when Mr Li Peng, the Chinese Premier visited Tokyo.

However, the consensus now is that greater uncertainty is bound to delay new projects.

Japanese banks are also expected to become more cautious about committing funds. Mr Honda, at the Bank of Tokyo, says: "Japanese banks are taking a wait-and-see attitude," although he believes relations with the Bank of China, the foreign trade bank, will remain good as it is a largely apolitical organisation, unaffected by the recent rifts within the Communist Party.

This could be crucial as China's foreign debt has grown rapidly in recent years to $40bn at the end of last year.

Jetro says that if China's export earnings stay low for several months, it will not be able to meet its repayment schedule. However, bankers say the situation is not currently as serious as Jetro suggests.

After the crackdown the outlook is far from bright

Colina MacDougall looks at China's economy

China's economy was in serious trouble even before the bloody crackdown in Tiananmen Square on June 4. Now, as the country struggles to resume normality after the factory closures and transport sabotage of last week, the problems will be more severe. While the hard-line leadership is concerned only with self-preservation, its economic problems will not simply go away.

In spite of Deng Xiaoping's references to the continuation of the open-door policy last week, economic reform is likely to unravel as the hard-liners exert more pressure. The economic freedoms of recent years are likely to be blamed for spurring demand for political change as the old guard jockey for position.

"We had believed that almost everyone supported reform and the debate centred on the pace of change" said one diplomat. "That does not now appear to be the case. The opposition was unwilling to speak out openly before. Now the wolves are coming out of their sheep's clothing."

Even before the crisis, the hard-line Premier Li Peng was stressing greater control and the supremacy of the party. He told the National People's Congress in March: "It is simply impossible to readjust the economy and overcome difficulties without necessary centralism and uniformity, and without rigorous organisational discipline". This view is likely to be much more prominent now as Peking struggles with political unrest and economic uncertainty.

"The economic structure was already irrational before the crackdown," a western diplomat in Hong Kong said. "It will become more so, with funds diverted to the military and to pay higher wages to keep workers happy."

The progress of the economic reform was in any case frozen last autumn, when Premier Li Peng launched an austerity programme to cut expenditure. This has slowed the economy but failed to achieve the clamps on inflation which was the chief purpose.

A key reason was that the authorities did not effectively control incomes. Wages and other cash payments to workers rose in the first four months by 28 per cent, and bonuses and other cash allowances by a staggering 40 per cent and 60 per cent respectively. Consequently, inflation rose by 27 per cent in the first four months of the year, Yuan Mu, the State Council spokesman said in May. Last year it reached 18.5 per cent.

The leadership has not improved its farm payments system, in spite of obvious effects on already-falling agricultural output. Naturally, peasants will not sell to the state unless they get paid, and shortages are a likely consequence.

Investment in fixed assets, which soared in last year's overheated economy, has only been cut by 4 per cent instead of the 24 per cent planned.

Output of coal, steel oil and transport has continued to lag behind that of processing industry, leading to more factory closures.

In the first four months export growth and, if processing and compensation trade is excluded, exports themselves dropped. As China's foreign debt is already around 40bn usd and interest payments are expected to peak in 1991-2, this may become serious.

All in all, the outlook both for economic reform and the economy are not bright.

Nationwide manhunt launched for student leaders

By Steven Butler in Peking

THE Chinese government last night launched a nationwide manhunt for 21 student leaders active in the Peking democracy movement and authorised police to use firearms to break up illegal public gatherings throughout the country.

In Peking last night martial law troops fanned out across the city to set up roadblocks and searched all vehicles, while soldiers on foot stopped and searched pedestrians.

The issue of arrest warrants yesterday was the first confirmation that the student leaders are still at large.

The arrest list was topped by students who rose to prominence as figureheads for the movement, including Wang Dan, a 24-year-old history student at Peking University and Wu'er Kaixi, a 21-year-old student at Peking Normal University from the Uighur Moslem minority, who distinguished himself as a fiery orator.

The 21 were leaders of the banned Autonomous Students Union, which is accused of inciting and organising what the government calls a counter-revolutionary rebellion, its term for the demonstrations.

The martial law command made a crude attempt to discredit Mr Wu'er by broadcasting a secretly filmed video tape of him at a banquet on May 29, claiming that he was feasting while other student were fasting. In fact, the student fast had been called off by then.

Chinese authorities ordered a tightening of border security in case Fang Lizhi, the leading dissident, and his wife, Li Shuxian, believed to be taking refuge in the US Embassy, should attempt to flee the country. US officials refused to confirm whether he remained in the embassy.

Meanwhile, Li Peng, the Prime Minister, hinted that a purge of news media could be in the offing.

Where persuasion does not work, terror will

Stephen Butler reports from Shanghai on the bitter battle for the hearts and minds of the Chinese people

CHINA'S pro-democracy movement now lies crushed under a wave of arrests and a campaign of terror - the bruised faces of detainees under interrogation shown on television every night in a warning of what is in store for anyone who steps out of line.

Yet the battle for the hearts and minds of the Chinese people is just beginning. It is a battle full of tension and fear, evident from a walk down the Shanghai waterfront, where only one Chinese turns up to practice English with a foreign visitor. Normally a foreigner is mobbed. Yet on Nanjing Road, Shanghai's most famous shopping street, I am whisked away by two students and taken to a dark underground cafe where they ask: "What really happened in Peking?"

Outside the capital everyone now knows something terrible happened early on June 4, but what is far from clear for those who have not seen uncensored television footage of troops firing on unarmed civilians. There is the government version - broadcast hour after hour, day after day - according to which 300 soldiers were massacred by hooligans after they refused to use weapons.

"I am not entirely satisfied with the government's explanation," says one Shanghai resident, who watched the government film of people beating and burning soldiers. "But those newspapers from Hong Kong, and the BBC and the Voice of America are too extreme. Why would the government want to massacre its own people? It doesn't make sense."

Indeed. The very horror of what happened in Peking strains credibility and makes the government's case more plausible. The government has also made good use of the fact that many contradictory and obviously false reports have circulated widely. Eyewitnesses, for example, disagree about how many died, with estimates ranging from several hundred to seven thousand.

In the end, only the government knows the actual number. And while it is a safe bet that few Chinese believe the Government's figures (23 demonstrators dead), the government has succeeded in creating confusion, doubt, and, in the end, apathy.

"History will decide" was coined last week by the mayor of Shanghai in his successful call to get people to go back to work. This has now become a convenient response from people who would rather not have to make up their minds themselves, particularly from older people who have a stake in the power structure and who have experienced the terrible results of past political struggles.

The government campaigns against rumours (meaning unofficial sources of information) and the Voice of America are also laced with just enough credibility to sow doubt.

Yet the government's propaganda campaign is not without its lapses and inconsistencies. It has blamed the trouble on a "tiny minority of trouble makers and lawbreakers".

Yet few could believe that the pathetic souls who have been dragged before the public could be responsible for what even government pictures show: a virtual insurrection throughout the country.

In cities everywhere thousands took spontaneously to the streets, blocked traffic and closed down railways and bridges in a burst of anger against the hated Prime Minister, Li Peng.

"We don't believe anything the government says," says one student in that dark cafe.

One English teacher at a university in Shanghai says some students are terrified they will be punished and their lives ruined.

They know it can be done. If persuasion does not work, terror will.

Hanoi ready to start talks on boat people

By William Dullforce in Geneva

VIETNAM indicated yesterday it was ready to strike a bargain over the thousands of "boat people" who have fled the country and are existing in overfilled camps in Hong Kong and other coastal states in South-East Asia.

Nguyen Co Thach, the Foreign Minister, said Hanoi would open bilateral talks with the countries concerned about the repatriation of boat people who had not been granted refugee status.

The source of the migration of people from Vietnam for economic reasons could be resolved if other countries abandoned their economic blockade and their political hostility against the communist regime in Hanoi, he said.

The international community should step up its aid to regions which were the prey of economic difficulties and the site of illegal emigration, Nguyen said.

He spoke on the opening day of the two-day United Nations conference here, at which a new Comprehensive Plan of Action (CPA) for coping with the migration of thousands of Indo-Chinese refugees will be adopted. Hanoi's offer addresses the problem of the "economic migrants" which Hong Kong and other coastal states in South-East Asia want to separate from the political refugees and return to their homeland.

Such enforced repatriation is provided for in the CPA only as an alternative which would be examined, if efforts to persuade refugees to return of their own free will fail. Britain, Australia and Asian countries of first asylum believe voluntary repatriation will not work.

This is not the view of the US. Mr Lawrence Eagleburger, Deputy Secretary of State, said that Washington accepted the general principle that asylum seekers found not to be refugees are ultimately the responsibility of their country of origin.

But the US - which has spent more than $500m on aiding Indo-Chinese refugees since 1979 and has harboured the bulk of Vietnamese boat people - remained unalterably opposed to enforced repatriation unless dramatic improvements occurred in Vietnam's economic, social and political life.

Mr Eagleburger said Vietnam should demonstrate its commitment to the CPA by granting all those eligible under the "orderly departure programme" which has been in existence since 1979 the right to emigrate freely.

Vietnamese refugees packed like sardines on a ferry in HK

Bangkok worries about building boom

By Roger Matthews in Bangkok

THAILAND'S relentless construction boom is beginning to cause official concern as the price of building materials continues to climb, land speculation intensifies, and fears rise of an oversupply of homes in the luxury condominium market.

In the Bangkok metropolitan area approval was granted last year for over 800 large-scale building projects with nearly 40 buildings in the 20-40 storey range. More than 200 applications from 1988 have still to be processed while a further 130 were lodged in January this year.

Mr Banharn Silpa-archa, the Minister of Industry, appealed yesterday to the country's three main cement producers to squeeze the maximum output from their existing plants and to consider adding substantially greater capacity. He estimated that Thailand would need a minimum of 20m tons of cement a year by 1991 compared with the present capacity of 15m tons.

The Industry Ministry also said that it was considering lifting the ban on new factories for producing steel reinforcing bars, another of the materials in short supply.

Some construction companies estimate that prices for steel bars, aluminium and some woods have risen by over 30 per cent in the last two years and see little change in the trend while demand is rising so sharply.

The risk of these price rises posing severe difficulties for the more speculative building projects has led the government to urge the Bank of Thailand to introduce stricter borrowing requirements especially for luxury condominiums.

At the same time, the Cabinet is preparing legislation that will allow non-Thais to purchase apartments in these buildings.

Ministers are divided over whether an upper limit of 25 per cent or 40 per cent for foreign ownership should be imposed on each condominium, but the principle has been conceded because of the local market would be unable to absorb the volume of units becoming due to become available in the next two to three years.

The commercial banks are facing increased criticism for overly-generous lending policies towards luxury condominiums which, critics points out, also serves to increase the pressure on the already seriously under-funded public utilities. There are said to be nearly 300 of these condominiums either under construction or in the pipeline.

It is feared that such a concentration of resources at the luxury end of the market could create additional delays in starting on longer-term industrial projects with some companies being quoted a six-month waiting list by specialists in piling and foundation work.

Iran still keeps Gulf off-balance

Victor Mallet on how the Arabs have reacted to Khomeini's death

THE RULERS of the Gulf oil states must feel like anxious patients in a dentist's waiting room as they watch the unfolding political drama in Iran after the death of Ayatollah Ruhollah Khomeini.

The Gulf's Sunni Moslem heads of state are privately delighted about the death of the man who tried to export his brand of emotional Shia fundamentalism to their fiefdoms. He was a man, moreover, who had the charisma to influence their own Shia populations.

But the Gulf is full of nervous expectation about Iran's future. Theories that the Iranian masses were victims rather than supporters of the Islamic Revolution were made to look hollow by the extraordinary - and sometimes violent - outpouring of grief which followed Khomeini's demise.

The mourning was not confined to Iran. While it appears to have found no public expression among the cautious Shias of Saudi Arabia's Eastern Province, it was evident in Lebanon and Bahrain.

So sensitive are the Sunni rulers of Bahrain, where the majority Shias are closely watched by the authorities, that two journalists working for international news agencies had their credentials withdrawn last week, apparently for reporting Shia grief. One of them is being expelled.

Most of the Gulf states reacted with habitual caution to Khomeini's death, sending non-committal condolence messages to the Iranian government and in some cases junior government officials to the funeral. Saudi Arabia was a notable exception and Riyadh maintained a stony silence.

For the immediate future the rift between Iran and Saudi Arabia, worsened by Khomeini's virulently anti-Saudi final testament, is too deep for reconciliation. It would take a bold Iranian politician to mend fences with the Saudis so soon after the Ayatollah's funeral and thereby risk the charge of defying Khomeini's commandments.

Next month's pilgrimage to the Saudi Arabian holy city of Mecca, the annual Haj, is another bone of contention between the two countries and it now seems that there will be no pilgrims from Iran. Saudi Arabia insisted on an Iranian quota of 45,000, while Iran wanted to send three times as many, and negotiations collapsed amid mutual recriminations. More than 400 pilgrims, most of them Iranian, were killed in clashes between Saudi security forces and pro-Khomeini demonstrators in Mecca two years ago.

In spite of the bitterness over the Haj and Khomeini's legacy of hate towards the Sunni Moslem Gulf rulers, the next few months in Iran will not necessarily be too painful for the Arab world.

The destabilising chaos predicted in some quarters has not yet materialised, and Iranian leaders will be spending much of their energy on domestic matters, including repair of the economy after last year's Gulf war ceasefire and the forthcoming presidential election in August with its associated constitutional reforms.

Only the extreme optimists among Khomeini's opponents expected an instant collapse of his Islamic Revolution after his death. Given that clerical rule was likely to continue in any case, the relatively moderate combination of Ayatollah Ali Khamenei, the new leader and current President, and Hojatoleslam Ali Akbar Hashemi Rafsanjani, the speaker of parliament and probable future president, is a comparatively benign one for Iran's neighbours.

> The Gulf is full of nervous expectation about Iran's future. Theories that the Iranian masses were victims rather than supporters of the Islamic Revolution were made to look hollow by the extraordinary — and sometimes violent — outpouring of grief which followed Khomeini's demise.

Like their Western counterparts, however, Arab diplomats are waiting to see what will happen next. They do not rule out an intensifying power struggle between "moderates" such as Mr Rafsanjani and "radicals" such as Khomeini's son, Hojatoleslam Ahmad Khomeini. There are even unconfirmed reports that more of Iran's Revolutionary Guards are being sent to Lebanon: "If it's true then they are still in the business of exporting the revolution," said one Western diplomat this week.

The hitherto deadlocked negotiations between Iraq and Iran to consolidate the ceasefire probably hold the key to any more general rapprochement between Arabs and Persians. The Gulf states, previously fearful of the kind of Iranian subversion they experienced in the early and mid-1980s, warmed to Iran in the aftermath of the ceasefire in August last year, partly because they feared the power of a resurgent Iraq.

But the movement seems to have petered out in the face of Iranian intransigence and the lack of progress in the peace talks, leaving open the possibility of further warfare.

"The Gulf situation has been frozen by the failure to make progress on the ceasefire," says Dr Shahram Chubin, of the Geneva Institute for International Studies. Over the past 10 days, however, Iran and Iraq have avoided antagonising each other and the Iraqi government has even reined in the Baghdad-based People's Mujahideen guerrilla movement. Khomeini's death may help to break the deadlock.

Sri Lanka prepares for violence

By Mervyn de Silva in Colombo

THE Sri Lankan security forces have been put on full alert and police and servicemen have had leave cancelled in an effort to forestall violence on the 25th anniversary of the extremist Sinhalese JVP party.

The JVP is expected to use the anniversary as the focus of its campaign to force 45,000 Indian troops to leave the country.

Port workers in Colombo have refused to handle cargo bound for India, and Indian goods lie piled up in the warehouses with no labour to load them. Indian shopkeepers have received JVP "notices" to shut their shops or face reprisals.

President Premadasa has called on the peace-keeping force to leave by July 31, but the JVP campaign is creating economic chaos according to Mr Gamini Dissanayake, the Plantations Minister.

Israel looks to ways of speeding deportations

By Hugh Carnegy in Jerusalem

THE Israeli authorities said yesterday they were considering ways of easing legal obstacles to the deportation of Palestinians from the West Bank and Gaza Strip. The deportation policy has attracted strong criticism from the US and other countries concerned by Israeli reaction to the uprising in the occupied territories.

General Dan Shomron, the army chief of staff, told a parliamentary committee the idea was to remove the right of appeal for those deported until after they had been expelled from the country. If their appeal was subsequently upheld, they could return.

Mr Yitzhak Rabin, the Defence Minister, complained at the weekend that at present the effectiveness of deportation was being diluted by long delays in implementing expulsion orders while appeals against them were heard in the courts, although none has yet been upheld.

Nearly 50 Palestinian activists have been deported since the *intifada*, or uprising, began 18 months ago. Most were put across the border into Lebanon. Security sources say the defence establishment would like to make more use of expulsions to curtail the influence of leading activists.

Despite appeals by the US to ease their uncompromising repression of the *intifada*, the authorities have stepped up their actions in recent weeks and signalled tougher measures to come. Yesterday 50 activists in the West Bank were rounded up by the army which blew up or sealed 11 homes in reprisal for attacks on Israeli troops and other targets.

Malaysia expects 8% growth rate

MALAYSIA can expect 8 per cent economic growth this year, nearly matching last year's 8.1 per cent, the central bank's deputy governor said yesterday, AP reports from Kuala Lumpur.

The national news agency Bernama said Mr Lin See Yan, Bank Negara deputy governor, added that consumption expenditure and private investment would continue to push up incomes. He said manufacturing and tourism were the main growth areas, while growth in the farm sector was expected to slow this year.

He said he expected unemployment, currently 8 per cent, to fall to 7.75 per cent by the year end and fall below 7 per cent by 1991. It would take three years to come down to 6 per cent, he added.

Mr Lin also said Malaysia would continue to make early repayment of its foreign debt, which has been reduced to Ringgit 42bn (£10bn).

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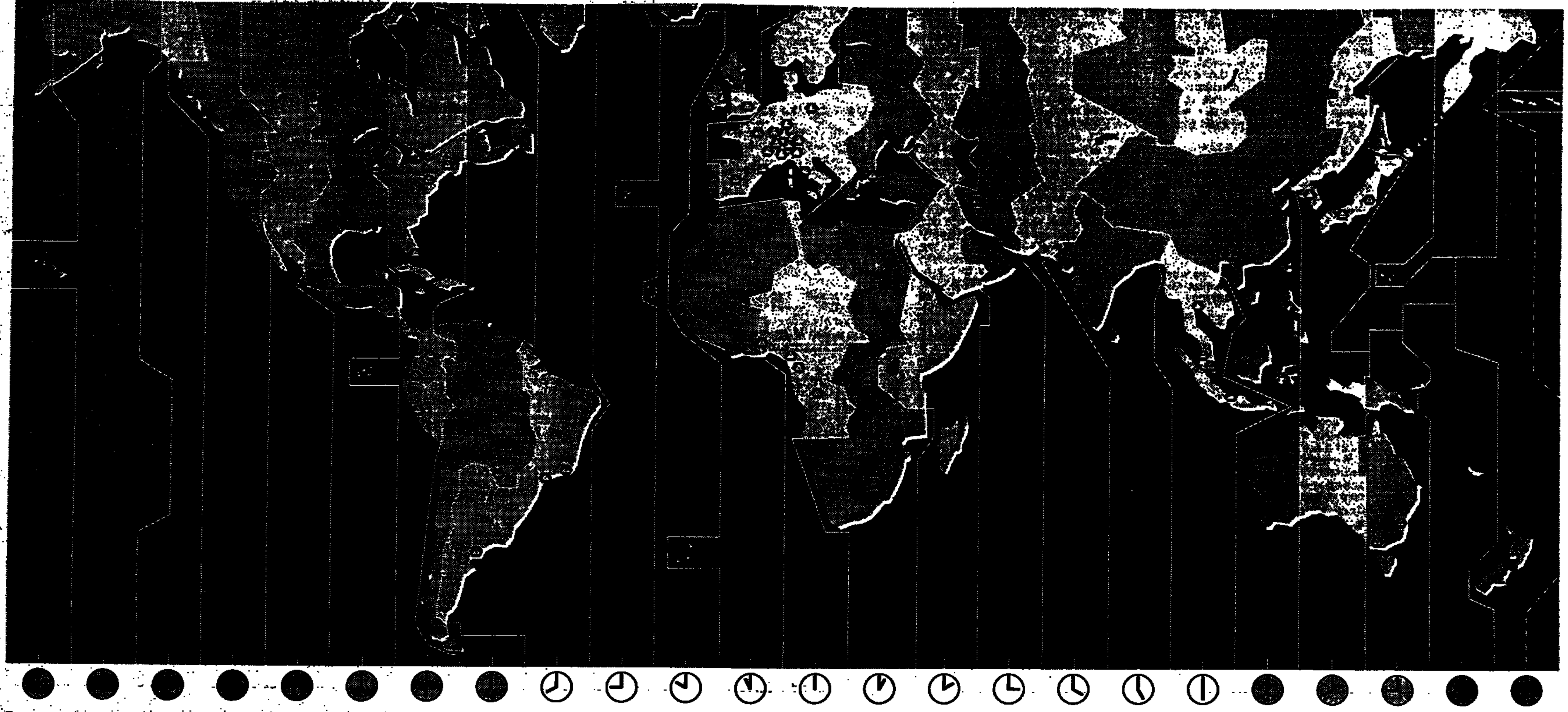

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OVERSEAS NEWS

Can Hawke's balancing act end the years of vulnerability?

On the eve of his visit to Europe and the US Australia's prime minister talks to Robin Pauley and Chris Sherwell about his attempts to restructure the economy and his hopes of winning a record fourth term in office

HOW CAN YOU possibly win a record fourth term in office with 16 per cent housing loan rates and 18-plus per cent prime rates after six very exhausting years of government?

The question assumes that interest rates are the only factor which will determine the outcome of the election. I don't accept that. Having said that, nor do I complacently assume that a continuation of those levels of interest rates into an election period will not be needed. The Australian electorate has become more sophisticated, I think, during our period of office. They know for instance with regard to interest rates that I am not a fool and that I wouldn't have interest rates high because I was engaging in an exercise of masochism or sadism. But they are there because they are necessary to rein the economy in. They are also going to have to make a decision between us and the alternative and we come out a long way in front when they ask themselves that question seriously.

Paul Keating, the Treasurer, is your anointed successor. Is your expectation still that you will hand over to him in the middle of the next term?

No. I'll go to the next election intending to serve the full term. I will win next time. He has done an excellent job as Treasurer and he would be a good leader but as I have said before and as I am certain he understands I do not anoint, the caucus appoints.

What will the key issues be in the election, if not interest rates, and how will you defend a record current account deficit and a debt blow-out?

I think the issues will be economic management. By the time we go to the next election there will be a rough symmetry in time between our time in government and the previous coalition period. It will be roughly seven years of each and according to any relevant criterion that you put up whether it be employment, unemployment, interest rates – which I remind you still have not reached the peak they did under the other mob – inflation, movement in real unit labour costs, international competitiveness, ours will be a significantly better performance so I'll be quite happy to stand on relative economic performance.

The other mob has been in opposition for six years and they have been so busy stabbing each other in the back that they have not found time to formulate policy. And by the time we get to the election I do not think it will be very much better.

Now, coming to the quite fundamental point about the current account and our debt problem: we have undertaken a process of restructuring the economy which is historically unprecedented. Without being exhaustive we have deregulated the financial sector, floated the dollar, ended the two-airline policy, cut tariffs by 30 per cent, introduced competition in the government business enterprises, introduced massive reform in the labour market through the whole award restructuring process that is under way.

All that is directed at having created a more competitive and diversified economy so that in future we shall not be so vulnerable to swings in commodity prices from which we suffered so drastically in 1985 and 1986. There is evidence that this is showing signs of improvement.

The other thing we are doing is on the fiscal side. We have transformed the mess we inherited where the public sector was making such a massive demand on savings here

Section Three: Australia Facing tough decisions

and overseas. We have transformed a deficit of A$10bn when we came in to a surplus of A$5.5bn.

We are currently trying to rein in demand by having the three arms of policy – wages, fiscal and monetary – very tight. And we shall continue to do that so that we can move to a situation where the level of economic activity is not going to be sucking in an unsustainably high level of imports. We just cannot continue to be an Australian economy which depends upon what happens to the price of wool and wheat and coal and iron ore.

But you seem to be in just that position again right now.

Well, not as much as we were. The proportion of manufacturing exports is increasing and we think that with the growth of real incomes in north Asia we will attract much more demand for Australia in terms of tourism, education, health services.

We cannot continue to have the high profile of vulnerability. Underneath all this there has been a quite fundamental reorientation of thinking of the trades union movement. They have now come to understand that they had to do that if they were going to retain secure employment in this country.

Are the "Greens" now becoming such a force that your foreign exchange earning industries – mining, tourism, agriculture – will have to be modified to accommodate them?

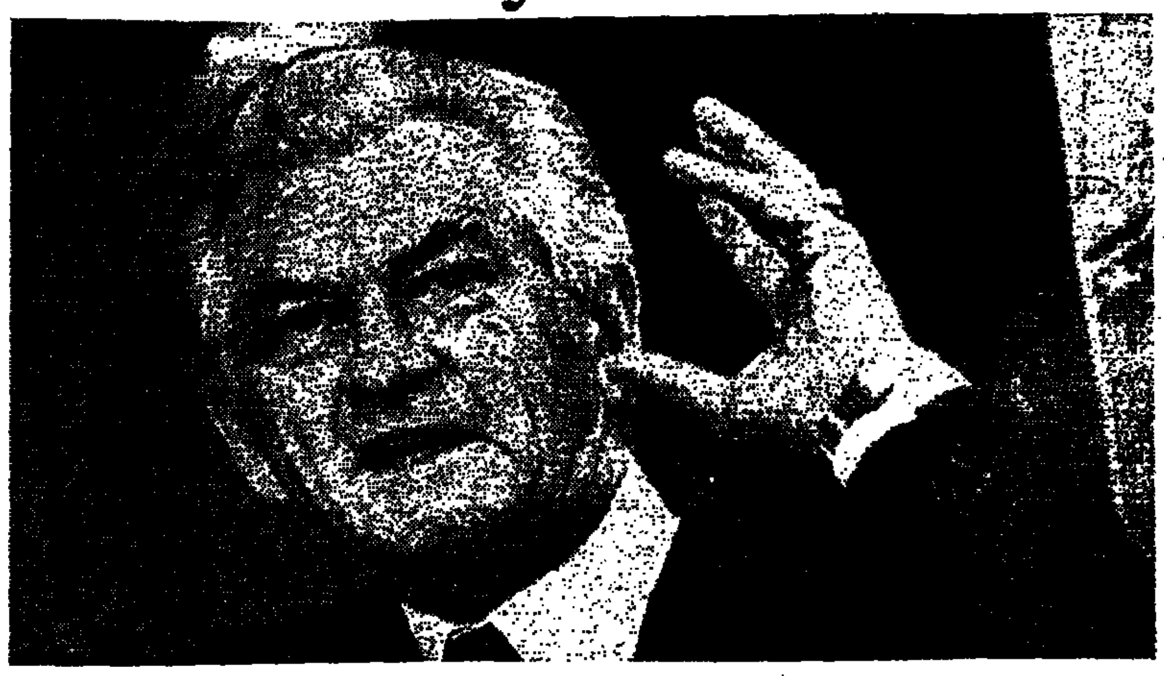
Not in any massive sense. I think it is somewhat at the edges. For example, we just recently knocked back a pulp mill in Tasmania which would over time obviously have generated a reasonable amount of foreign exchange. But if you take our agricultural area one of the interesting developments of recent times has been an alliance to which we have acted as midwife between the National Farmers' Federation and the environmental movement. They are combining with us to try to get a comprehensive programme to deal with soil degradation which is a massive issue in this country.

The area where it looks more volatile is in the forestry products area but if you look at the totality of our export earnings that is relatively small. We have a minister working with both the environmentalists and the forestry industry to try to get the concept of a forestry accord so that we can have a blending of the concerns of the environmentalists together with our desire to have value added process in raw materials.

You are identified with the "Australian way" of reform through consensus and balancing acts between interest groups. Is this the only way and is it enough to achieve the things you want to do?

I don't think there is an alternative way. When we got hit with that turn around in the terms of trade in 1985-86 all history in this country and most other places would have shown that when you have a loss of A$11bn national income, which is what was involved, the Australian economy would have gone just about into free fall.

What we were able to do because of the existence of the accord with the trades union movement was to renegotiate expected outcomes and have a lowering of the wages outcomes from what had had been tentatively agreed. So we not only weathered that but consistently kept up our high level of employment growth. The figures there are



BOB HAWKE: the key election issue is our management of the economy

quite startling. We have now created 1.4m jobs and have been creating them twice as fast as the rest of the OECD. Instead of blowing prosperity by whacking as much as you can in wages with the inevitable subsequent recession our approach has got a situation where the trades unions are looking at more than just their own vision and their own objectives. Employers in some respects have been more sensible too.

You cannot impose solutions, not in a democratic framework. Not lasting viable ones and certainly not ones which look at some sort of continuity in growth and employment growth.

Having said all that, the problem is the external problem and we have got to deal with that and it is going to take time. We are going to have a number of years in which the level of domestic expenditure is lowered, where we can build up to trade surpluses to deal with that now significant accumulated interest problem we've got from the level of debt that already exists.

Has your proposal for a so-called Pacific OECD got a cat in hell's chance of succeeding?

The cats are looking healthy. Not only the cats but the Tigers are on side too which is perhaps a bit more important. It has got a very good chance of success because it is pitched at realities. It is not putting into the minds of my fellow leaders in the region a concept which is either inimical to their interests or irrelevant to the economic circumstances of the present and future.

I made it quite clear that we were not advocating the creation of a trading bloc but that it made sense as we were part of of the fastest, most dynamic growing region in the world that we should have some sort of mechanism which would enable us better to understand what was happening in each economy. We would be able to best take advantage of the possible economic complementarities of the different countries in the region and also through closer economic co-operation that way to also be a force within the world for arguing the case for a freer international trading environment. Now, all those things seemed to me to be eminently sensible, non-threatening and possibly to be very useful.

I used the OECD not to say that was precisely what I wanted to do but in a sense that encapsulated the concept as distinct from a trading bloc concept. I also wanted to make clear to our ASEA friends that we in no sense see this idea as a challenge to ASEAN which is essentially a political organisation rather than an economic organisation. Responses have been very positive and I think it is virtually certain that we'll have a ministerial meeting before the end of the year. As far as we can see there is general acceptance that there does need to come out of that an agreement for some permanent structure. We don't want something massive but the concept of permanency seems to have been accepted and that is important.

On the question of membership there has been some marginal disagreement. We had the view that the US and Canada should probably be involved but we did not go to them first because we knew there might be some differences of emphasis or view within the core group of 10 – the six ASEAN countries, Australia, New Zealand, Japan and South Korea. So we concentrated on them but there does seem to be emerging that it is appropriate for the US and Canada to be involved. So for all those reasons I think it has much more than a cat's chance in hell of succeeding.

This underlines your belief that the future of Australia must lie within Asia. How are you going to "Asianise" the Australian people.

The fact that in a very real sense we see Australia's future being very much tied up with Asia does not carry the implication that we do not see very considerable importance in our future with Europe and the UK. The one does not exclude the other. The intelligent assessment of European governments and European entrepreneurs is not to see Australia's investment in Asia as a minus but as plus.

As to the question, I don't want to Asianise Australia, I want to internationalise Australia. What I've been about since I've been prime Minister is to try to get the message to my fellow Australians that we cannot put a fence around ourselves – 16¼m people in a world which will be 6bn around the end of the century. That is nonsense. A secure future for Australia depends on us being enmeshed economically with the region and all our efforts have been directed towards achieving that. It means enhancing tolerance, understanding that in our immigration programme cannot have any discrimination. It means welcoming the number of people here from Asia including under our business migration programme. It means understanding a very simple truth: that you cannot say to Asia, yes we want you as a major trading partner but we regard you as second class citizens in some way or another. You do not have to be too clever to understand that truth but some people tend to want to resist it. It also involves an increase in the teaching of Asian languages so that we get a core of people who understand the languages of the region, who become proficient in them so that will facilitate commercial and cultural intercourse.

Is New Zealand your greatest foreign policy challenge?

Not the greatest foreign policy challenge. Without any disrespect to our 3m friends across the Tasman they are not a challenge to us. We have important differences with them with regard to their view about the ANZUS relationship. We think they are wrong and we have told them directly and bluntly we think they are wrong. But within that breakdown of the trilateralism of ANZUS we have with the full agreement of our US friends kept a significant defence relationship with the New Zealanders. If you look at the countries in the region, challenge is not the right word. But perhaps the country with which there has been some difficulties in recent times has been Indonesia and we are working very hard, and I believe so are they, to develop and improve that relationship.

Is there a single issue in each of the countries on your forthcoming trip by which you will judge it to be a success?

No. I tend not to be a single issue man. We'll be going to the US, France, West Germany, UK and Hungary. In each of those countries there are a number of issues which are important. I suppose if you wanted to find two threads one is our commitment to a freed-up international trading system so we will be continuing to push that issue. Second I think what is emerging now is an increasingly common and strongly held concern with environment – the greenhouse effect and the depletion of the ozone layer. We'll certainly be talking with our friends about that because the evidence is becoming increasingly strong that unless we really do something about these issues we are going to be handing over to the next generation a massive problem.

WORLD TRADE NEWS

Japan to renew Mexican oil contract

By Richard Johns in Mexico City

JAPAN has confirmed its intention of renewing its 180,000 barrels a day crude purchasing contract with Petroleos Mexicanos (Pemex), Mr Francisco Rochas, director-general of the Mexican state oil corporation, said last week on his return from a visit to Tokyo.

For now, however, hopes of a larger long-term commitment on the part of the Japanese consortium of 26 companies known as the Mexican Petroleum Company (MEC) have not been fulfilled.

At the expiry at the end of this year of a 10-year supply accord, embattled Pemex – Latin America's biggest company – is believed to want a long-term deal for a similar period and an increase in the volume supplied to MEC with a substantial advance down payment.

This would allow it to buy back its debt on the secondary market or provide funds for investment.

Any such agreement would almost certainly be part of a massive Japanese contribution to the overall restructuring of $54bn-$55bn of Mexico's public debt.

The current supply contract accounts for 13-14 per cent of Mexico's exports, averaging 1.31m b/d in the first five months of this year, and about 5 per cent of Japanese requirements.

Japan and the Far East have become more attractive markets for Pemex with the completion in late April of the oil pipeline across the Isthmus of Tehauntepec.

Running 165 miles from Nuevo Teapa to Salina Cruz on the Pacific Coast, it will have an initial capacity of 550,000 b/d. It was constructed at a cost of about $160m (£104.6m) and financed by a Japanese Export-Import Bank loan.

Mexico's new facility could carry oil in either direction in greater volume than Panama's 480,000 b/d pipeline facility, which must be regarded as a political liability by US refiners on the Gulf coast.

Pemex has incurred a trade deficit in refined products amounting to $196m during the first five months of this year. During this period its own exports worth $159m have been offset by the need to import 36,000 b/d of petrol and 28,000 b/d of fuel oil.

Rolls Royce wins $200m order for engines

ROLLS-ROYCE said yesterday the US airliner leasing group International Lease Finance Corp (ILFC) had agreed to buy aircraft engines worth $200m, Reuter reports from Paris.

The UK aircraft engine company said at the Paris airshow that the purchase was based on a business agreement between the two groups drafted in May 1988. ILFC has ordered at least 22 535E4 engines for Boeing 757s and 13 RB211-524G/H engines for 747s and 767s.

The earlier business agreement had consisted of an understanding that ILFC would equip a certain number of any new aircraft with Rolls-Royce engines.

● Air Nova, an affiliate of Air Canada, has optioned ten Canadair Regional Jets worth C$170m, writes Robert Gibbens from Montreal. Canadair, the aerospace arm of Bombadier, announced on Tuesday as the new owner of Short Brothers of Belfast, now has 62 orders and options for the 50-seater aircraft due in production next year.

SkyWest of the US and a Lufthansa subsidiary have optioned or ordered 22 more.

Malaysia suspends power project

Malaysia said it has delayed a Ringgit 10bn project to build a hydroelectric dam and submarine transmission cables in the East Malaysian state of Sarawak, Reuter reports from Kuala Lumpur.

Mr Leo Moggie, the Minister for Energy, Telecommunications and Posts, said the government was unwilling to commit itself financially to building the power plant, which would require seven to 10 years to complete.

He did not say when the project would be resurrected. The government had planned to build a 2,400MW capacity dam at Bakun to transmit electricity to peninsular Malaysia, Singapore and the Indonesian territory of Kalimantan, which borders Sarawak.

The project faced strong protests from social action groups and natives of Sarawak.

"It's a good project but it involves a large capital investment which we are not prepared to commit," the minister said, adding that nobody in the private sector had indicated interest in the project.

Himont venture

Himont, the Wall Street quoted polypropylene subsidiary of Italy's Ferruzzi-Montedison group, is to join forces with the Chao group of Taiwan to build and operate a new polypropylene plant in Malaysia, Alan Friedman writes from Milan.

Himont declined to disclose the amount of capital being invested, but said it would have 35 per cent of a joint venture with the Chao group. Himont also said the plant will have annual production capacity of 100,000 tonnes and will be located in the Pasir Gudang industrial zone at Johore.

Ferruzzi has also announced plans for its Central Soya subsidiary to undertake a joint venture in Poland to build an animal feeds producing plant. The venture, with Osnowo, the Polish feedstock cooperative, plans to build a plant on the outskirts of Warsaw.

THF in Polish deal

Trust House Forte has announced that it is to set up a Joint Venture with the Polish hotel group, Orbis, to restore and manage the Hotel Bristol in Warsaw, reports James Blitz.

The Bristol is said to be the most prestigeous in Poland. It was closed down in 1982, and should be reopened in two years time, according to a Polish embassy spokesman.

Under the terms of the venture, which is the eighth Anglo-Polish JV, THF will have a 55% shareholding and Orbis 45%.

Amex welcomes EC move on banking access

By David Buchan in Brussels

AMERICAN Express, the US financial services company, yesterday welcomed the European Commission's revised reciprocity provision in its banking liberalisation plan, likely to be approved by EC governments next Monday.

Mr James Robinson, Amex's chief executive, said his company was "basically satisfied" that its lobbying had paid off in persuading the Commission to use discretion in demanding reciprocal access for EC banks each time a foreign bank gained a "single banking passport" across the Community after 1992. EC partners had feared tough, automatic reciprocity demands.

Putting the Community's plan for an internal market by 1992 in the wider context of the General Agreement on Tariffs and Trade negotiations, Mr Robinson said the European private sector was not paying "the same degree of serious attention" to the multilateral trade talks as US business had.

Mr Robinson, who yesterday presided over Amex's listing on the Brussels stock exchange, said businessmen should join hands across the Atlantic to lobby governments for "a good Gatt agreement in 1990".

Canadian export credit agency comes under fire

By David Owen in Toronto

EXPORT Development Corporation (EDC), the Canadian export credit agency, has been criticised by Mr Kenneth Dye, the auditor general, for maintaining an inadequate allowance for possible losses on its sovereign loans.

Writing in the EDC annual report, Mr Dye maintains that the value of such loans has been "significantly overstated because management's estimate of the allowance for losses on loans is significantly understated and, therefore does not conform to generally accepted accounting principles."

The agency's loans of C$5.35bn (£2.9bn) include C$4.78 bn in sovereign loans and a general allowance for loan losses of just C$107.8m, or 2 per cent of its overall portfolio. In comparison, Canadian banks must set aside loss provisions of 35-45 per cent on loans outstanding to a group of 38 troubled debtor nations.

Had an appropriate allowance been established, according to Mr Dye, EDC's C$4.2m net income would have become "a significant loss for the year", while its C$106.7m hoard of retained earnings "would likely have become a deficit."

EDC management argues that the agency's allowances, reserves and recovery estimates are "proper", and that additional loan loss reserves are "neither necessary nor appropriate at this time."

In 1988, EDC provided C$4.1 bn in insurance coverage for Canadian exporters, up 15 per cent from a year earlier.

Romania's trade with the West plummets

Leslie Colitt, recently in Bucharest, finds cash cuts further weakening performance

NICOLAE Ceausescu, the Romanian leader, warned recently that exports had fallen behind last year's poor performance and that only half of current contracts were being fulfilled.

"Very large" quantities of goods for export ended up in Romanian warehouses, the President noted. He blamed ministries, the State Planning Committee and even the National Council of Science and Technology, whose chairman is his wife, Elena Ceausescu. It was further confirmation that Romanian foreign trade is in a mess.

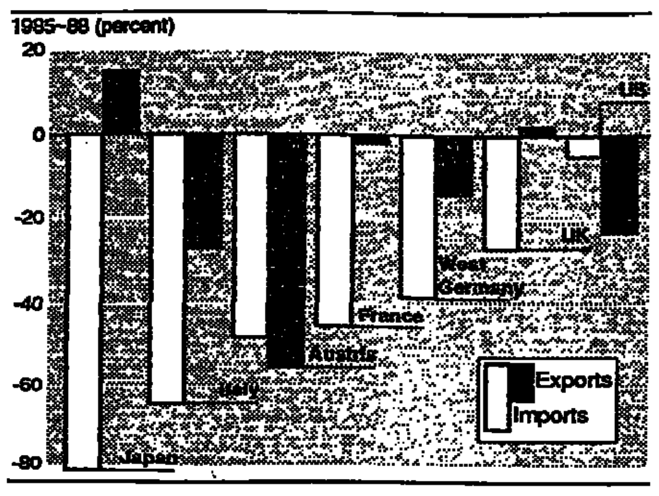
Exports to leading Western countries plummeted in recent years while imports were slashed even more heavily. The official $4bn trade surplus last year was estimated by Western economic analysts to be closer to $3bn. They forecast a surplus of $2bn for this year.

The analysts suggested that last year Romania sold a considerable portion of the 4m tons of oil it imported from the Soviet Union to the West so that it could pay off its foreign debt more quickly. They also thought the country may have speculated on the gold market.

Although Romania was a pioneer among members of Comecon, the Soviet-led trading bloc, in permitting joint ventures with Western companies, three of the four which still exist are doing poorly. One Western businessman said the likelihood of new joint ventures with Romania was "infinitesimally small".

Romanian trade with the west

1985-88 (percent)



Citroen has all but pulled out of its joint venture with the Oltcit car company as it was worried that serious quality problems with the Citroen-licensed Oltcit car would give the French company a bad name. Citroen appears to have left its original capital in the joint company for possible future use.

A venture between West Germany's Renk AG and Resita of Romania, which produces parts for marine engine gears, is in deep trouble. Two ships sold to China with Romanian gear components broke down in mid-ocean. Renk is said to be awaiting the results of an arbitration case to decide whether to pull out of the venture.

Another joint venture with an Italian company supplying clothes to Italy is said to be less than satisfactory. The only one said to be doing fairly well is with Control Data of the US.

Britain has suffered relatively less in trade with Romania than others because of the high percentage of aviation electronics which make up 30 per cent of British deliveries to that country. But UK exports of £50m last year were the lowest to an East European country, excepting Albania. Even if exports were to expand at the unlikely rate of 15 per cent annually, it would take them four years to regain the level reached in 1983.

Invariably, Western businessmen attending Romanian trade fairs these days are asked to comment on business prospects now that Romania has paid off its foreign debt. Their testimonials to the enticing future of trade with Bucharest fill columns of Romanian newspapers.

The truth is that some Western countries, such as Norway, Denmark and Portugal, have closed down their embassies in Bucharest, arguing that not even the commercial prospects warranted staying on.

Western commercial officials note that in addition to the traditional problems encountered in trading with a highly-centralised (and personalised) economic system, Romanian industry has been starved of investments and is plagued with breakdowns and supply problems.

Westerners are rarely able to get further than the protocol room of factories while managers, engineers and other specialists are constantly interfered with from above. Decisions are avoided, labour motivation is low and half the workforce is usually out queueing for food. Endemic corruption thrives as never before.

None the less, Romania is expected to set about modernising some of its most obsolescent plant soon and Western companies prepared to stay a gruelling course will eventually score some sales.

Romanian economics officials have said only that Bucharest would like to expand its trade with developing countries by offering better financing. Western businessmen suspect this means Romania is interested in carrying out civil engineering projects in these countries and may be prepared to give them soft credits.

Romania is attempting to expand exports to South America by selling textiles and shoes directly to importers instead of dealing through Western countertrade houses which provide the Romanians with cash and give importers 90 to 100 days in which to pay.

Taiwan to buy $1.5bn US goods

TAIWAN is to send five missions to the US between August and early 1990 to buy American products worth about $1.5bn to help narrow the trade gap between the two countries, officials said, Reuter reports from Taipei.

Mr Chang Chung-chien, Vice-Economic Minister, said an agricultural team would leave in August to buy about 600,000 tonnes of wheat and about 50,000 tonnes of barley from several US states. This is to be followed by an industrial group, comprising representatives of some 20 state-owned companies which will buy machinery and equipment for power stations, oil refineries, petrochemical plants and telecommunications networks.

Mr Chang estimated the two missions will place orders worth about $1.3bn. Last year, two similar teams bought $2.3bn worth of products, including 10 airliners.

In addition three groups from private companies, including department stores, will leave by early 1990 to buy about $200m of products.

"The purpose of the missions is to help balance trade" said Mr Augustine Wu, deputy director of the Board of Foreign Trade. Taiwan's trade surplus with the US rose to $4.5bn in the first five months of 1989 from $3.23bn a year earlier.

AMERICAN NEWS

ARGENTINA'S PRESIDENT-ELECT SET TO TAKE OFFICE

Menem steps reluctantly into a power vacuum

By Gary Mead in Buenos Aires

SINCE May 15 Argentina has been faced with a dangerous power vacuum in government, created by the fact that neither of its two democratically elected presidents has shown any inclination to administer the country's worst economic crisis this century. Now that President Raúl Alfonsín has announced that he will go on June 30, no matter what, the disorderly administration of recent weeks may well turn out to have been a golden age of peaceful stability.

President Alfonsín technically has six months left in office. The constitution stipulates that President-elect Mr Carlos Menem should take the reins on December 10, although he was elected Argentina's 48th president on May 14. Yesterday, Mr Menem said he was prepared to take office on June 30, the day President Alfonsín has said he will resign, but the outcome was still in doubt.

The interregnum was always likely to cause trouble, even if Argentina's economy had not been on the verge of bankruptcy. President Alfonsín has failed to tame Argentina's *most enduring nightmare*, an economy which respects no rules and few laws. His credibility has evaporated in step with the austral, the currency his government invented in June 1985.

There is no clearer indication of Argentine political vertigo than the decline of the austral. It traded in its infancy at 1.36 australs to the US dollar. Yesterday it traded at 350. According to quoted prices on the (now illegal) futures currency market, President Alfonsín's departure could coincide with the austral's death, as it nears 800 to the dollar.

But if President Alfonsín does not wish to stay, Mr Menem has no great desire to enter. President Alfonsín's televised broadcast on Monday evening, when he announced his imminent resignation, clearly came as a surprise to Mr Menem. This week both were due to hold further talks on the transition date. Any such meeting was rendered superfluous by Mr Alfonsín's bombshell announcement.

Since May 15 both President Alfonsín's Radicals and Mr Menem's Peronists have thrown up a variety of dates for the takeover and a dizzying collection of legalistic mechanisms to skirt the restrictions laid down by the constitution drawn up last century. Both sides have used the constitution as a mask to conceal the real causes of their reluctance.

Until now President Alfonsín has been conscious of his place in history. Had he stayed until December 10 he would have been the first democratically elected president to last his full term and hand over to a similarly elected president for six decades.

Menem: Alfonsín's resignation came as a surprise

To cut short his term inevitably means that he will leave under a cloud, with not only the worst economic record of Argentine presidents – inflation for June alone is due to exceed 100 per cent – but having fallen at the last hurdle in political terms.

His loss is hardly Mr Menem's gain. Mr Menem is aware that not only does the economy appear to call for shock treatment – although those who remember Cambodia's Khmer Rouge days wish his economic team would not describe their plan as "Argentina Year Zero" – but that the "military question" will now drop straight into his lap.

Mr Menem hoped that President Alfonsín would last the course long enough to wrap up not only the pending military trials against officers accused of human rights abuses under the 1976 dictatorship but also the sensitive matter of what to do with 300 officers who have rebelled three times since April 1987. Despite his denials of wishing to see an amnesty in place, Mr Menem's team had something like that in mind; so long as President Alfonsín introduced it, Peronists could wash their hands of responsibility yet bathe in the temporary relief it would bring from the demands of highly nationalistic officers such as rebel leader Colonel Mohamed Alí Seineldín.

Mr Menem promised much during his election campaign. President Alfonsín has now decided to carry out a Peronist demand voiced long ago – to leave and let the Peronists take over.

Venezuela near deal on $4.8bn IMF loan

By Peter Riddell, US Editor in Washington

THE International Monetary Fund and Venezuela are near agreement on a $4.8bn loan which will assist in its debt reduction and restructuring programme.

The Venezuelan government has sent a letter of intent to the IMF setting out a detailed economic adjustment programme and the Fund's staff has prepared the associated documentation.

The loan is now being considered by the IMF's executive board of directors and a decision is expected within the next two weeks.

Venezuela has always been regarded as an early candidate for the debt reduction initiative which was launched three months ago by Mr Nicholas Brady, the US Treasury Secretary.

At the end of last year Venezuela had around $35bn in outstanding debt, less than a third of the amount owed by Mexico, although it stands to agree a somewhat larger IMF credit than the latter.

Earlier this year Venezuela stopped interest payments on debts to commercial banks because of its inability at that stage to arrange new bank loans to help finance its outgoings.

Parallel with its discussions with the IMF, Venezuela has also been holding talks with its commercial bankers.

Brazilian exchange closures underline stock market's speculative foundation

THIS time it looks as if Mr Naji Robert Nahas, Brazil's most flamboyant speculator, has over-reached himself. After he failed to honour $30m in commitments to his brokers on Monday, Brazil's stock markets were forced to close. He is said by some brokers to have some $500m to pay in the markets.

Mr Nahas has always shown a Houdinesque ability to wriggle out of the tightest corners and return to the market in triumph. This time, however, Mr Nahas has brought Brazil's booming equity markets to the verge of collapse virtually single-handed. He has been forbidden to leave the country and may be permanently banned from the market.

The crisis Mr Nahas provoked has highlighted the speculative undertone that has powered Brazil's financial markets all this year. It also reveals the extent to which Brazil's booming stock markets were driven by the highly-speculative instruments wielded by Mr Nahas and a few others. The market has grown by 381.3 per cent in dollar terms since May 1987. But much of the expansion this year was fuelled by speculators, led by Mr Nahas. He is estimated to have accounted for half the markets' turnover in the last few weeks.

The first outcome of the Nahas affair is likely to be further government action to discourage speculation in the country's notoriously volatile financial markets.

Mr Nahas would not comment on his problems directly but issued a self-pitying note that blamed his problems on a plot hatched by his many enemies.

John Barham on the Houdini past of a master player on the financial markets

The note began: "I am the victim of unjustified and illegitimate pressures mounted in the market, aimed at altering the rules of the game." He said the process could drive him from an "extremely solid position" to "forced insolvency."

Mr Nahas had been buying, and immediately re-selling for cash, stock that need only be paid in five business days. But the leverage this game provided could only last as long as the market continued climbing. Last week it faltered after the Central Bank increased interest rates and the São Paulo Stock Exchange tightened its campaign against speculators.

The rival Rio de Janeiro exchange had lured Mr Nahas away from Sao Paulo last November with the promise of looser regulations and had been congratulating itself on its sudden growth. A smug Sao Paulo broker said: "I am amazed there are still people who fall for Nahas. In this house there is a rule: no deals with Nahas."

Mr Nahas has played the markets all his adult life. He is notorious for his cool, cerebral but amoral tactics making him the most telling operator in the market. According to some brokers, he has driven many a creditor to despair by delaying payment at critical moments. One broker said: "He always winds up paying and may yet pay up this time as well but he always pays late and often without including interest and inflation indexation charges."

His fortune is said to be built on solid ground. He owns 25 companies, among them an insurance group, property developments and what is said to be the world's largest rabbit farm.

Mr Nahas says he has always been fascinated by markets. He was born in Cairo of Lebanese parents. As a teenager, he played the city's cotton futures market. In Beirut, where the family moved after Gamal Abdel Nasser seized its textile businesses in 1962, Mr Nahas played the gold and currency markets while studying business administration. He married a Brazilian woman of Lebanese descent and when unrest in Lebanon escalated, he left for Brazil and adopted Brazilian nationality.

'I am the victim of unjustified and illegitimate pressures'

Mr Nahas has been the *bête noire* of the Brazilian capital markets since his arrival in 1970. He introduced a whiff of Levantine intrigue to a clubby market better used to camaraderie than menace. Mr Nahas unnerved the unwary with his labyrinthine strategies. One banker said of Mr Nahas last year: "He takes huge risks and is always pushing the limits of legality, but he never knowingly crossed the line." If he had not crossed the line this time, he has certainly pushed the market too far. Perhaps Mr Nahas should reflect on a statement he made last year: "All markets in the world can swing a lot but no-one is bigger than the market."

Markets reopen, Page 41

US retail sales continue rise

By Anthony Harris in Washington

US RETAIL sales rose by 0.1 per cent in May, sustaining the higher level seen in April in seasonally adjusted terms, according to advance estimates from the Census Bureau.

In real terms, sales have been falling since the beginning of the year and in May, as in April, the main increases in turnover were in cars, where buyers were attracted by special offers, and in food and energy, where prices rose sharply.

The figures suggest that the sharply higher personal savings rate seen in the first four months is being sustained.

Incomes have rise more than twice as fast as retail spending this year. The underlying trend, however, is not clear: sales have appeared flat in the March-May period in each of the last three years, though both 1987 and 1988 proved to be strong years.

At the same time the Department of Commerce announced that the US current account deficit, including services, widened from a revised $28.7bn in the final quarter of 1988 to $30.7bn in the first quarter of this year.

This deterioration is entirely due to US accounting practice, which records capital gains and losses on exchange rate movements as income in the quarter in which they occur. If these adjustments were made on the capital side of the account, as is normal in other countries, the figures would show a sharp improvement of about $6bn in the quarter.

Business split over clean-air plans

Roderick Oram records mixed reactions to Bush proposals

US business is broadly split in its reaction to President George Bush's air pollution proposals announced on Monday. Most fuel suppliers are unhappy about his choice of energy sources to promote. Fuel users, such as power utilities, gave them a cautious welcome.

The President's decision to allow market forces to allocate resources to several key areas is widely supported within industry. No complaints have been heard so far about the cost. Industry and consumers will pay between $14bn-$19bn a year well into the next century to meet the proposals, the Government estimates, an increase of some 50 per cent over current levels.

"We are pleased the President has come up with substantive proposals that stand a chance of being approved by Congress," said Ms Mary Bernhard, manager of environmental policies at the US Chamber of Commerce. The organisation, representing some 180,000 companies, trade associations and local chambers, said it would have to see details of the proposal in coming weeks before commenting more fully.

The stock market was quick to pick some potential winners, notably companies mining and transporting low-sulphur coal from the western states to power plants back east. Also favoured are a few large companies such as Combustion Engineering, McDermott International through its Babcock & Wilcox subsidiary and Foster Wheeler which make combustion or pollution control equipment. But most companies in the environmental sector are too small to attract institutional investors.

The three main thrusts of Mr Bush's proposals tackle acid rain, excessive ozone levels and airborne toxic chemicals. Most of the focus on acid rain is to reduce emissions of sulphur dioxide from coal-burning boilers in power plants. Some 107 plants in 18 states, mostly in the Midwest, have been identified. They have until the year 2000 to halve their emissions to 10m tons a year.

The decision to allow market forces to allocate resources to several key areas is widely supported within industry

The Edison Electric Institute, the association of investor-owned power companies, said it was encouraged by the flexibility its members would be given in achieving the reduction. They could, for example, instal scrubbers in smokestacks, burn lower sulphur coal, trade pollution rights with neighbours and adopt new forms of combustion technology.

The institute warned, though, that the proposals would be "very costly to consumers". The Environmental Protection Agency, however, estimates only a 2 per cent rise in prices for consumers of power from the targetted plants. The institute also warned that writing legislation before a major sulphur dioxide study is completed next year could lead to "serious and expensive mistakes".

The utilities also want more time to adopt new combustion technology which they believe will not be practical until some years beyond the 2003 deadline for compliance for such equipment.

The coal industry, reflecting the strong lobbying power of companies mining high sulphur coal, said the proposals were "unnecessary, unduly harsh and economically onerous".

Senator Robert Byrd, the West Virgnia Democrat, said the proposals would "decimate" high sulphur miners, many of whom operate in his state. He has long tried to block action on acid rain.

On ozone, the President is seeking legislation to bring into compliance by 2000 some 81 cities which currently fall short of federal air quality standards. The main focus is on further reduction in car emissions and the use of methanol as an alternative fuel.

The Detroit car makers said the task they faced was large but they would try to meet it. They will, for example, have to produce from 1997 1m methanol-powered cars a year (about one eighth of total output) for sale mainly in the nine most polluted urban areas. The change has widespread implications for car makers and uses.

Having lobbied hard against choosing one specific alternative fuel, Detroit warned yesterday it would be risky to plunge into a little-known fuel such as methanol. The *National Propane Gas Association* expressed great disappointment that propane, a proven fuel which already has 25,000 suppliers nationwide, had been ignored.

The American Petroleum Institute said it was disappointed by the Administration's decision to chose one particular alternative fuel. The action would be "an extremely costly and inflexible step which would provide highly uncertain environmental benefits".

The API was also unhappy about the President's choice of "costly and inconvenient" pump nozzles at petrol stations, a moved designed to reduce air pollution from petrol vapour.

On airborne toxic chemicals, the President is trying to remove by 1995 75 per cent of *the emissions* from plants of substances believed to cause cancer. The Chemical Manufacturers Association approved the proposal because it involved a switch to blanket control from a cumbersome system of "health-based" regulations.

Currently the EPA regulates only those chemicals linked to cancer. But the testing process is slow and costly, leading to only seven controlled substances so far. Some 10 have been rejected for controls and about 80 are still being studied.

Santiago keeps a nervous eye on smog index

By Barbara Durr in Santiago

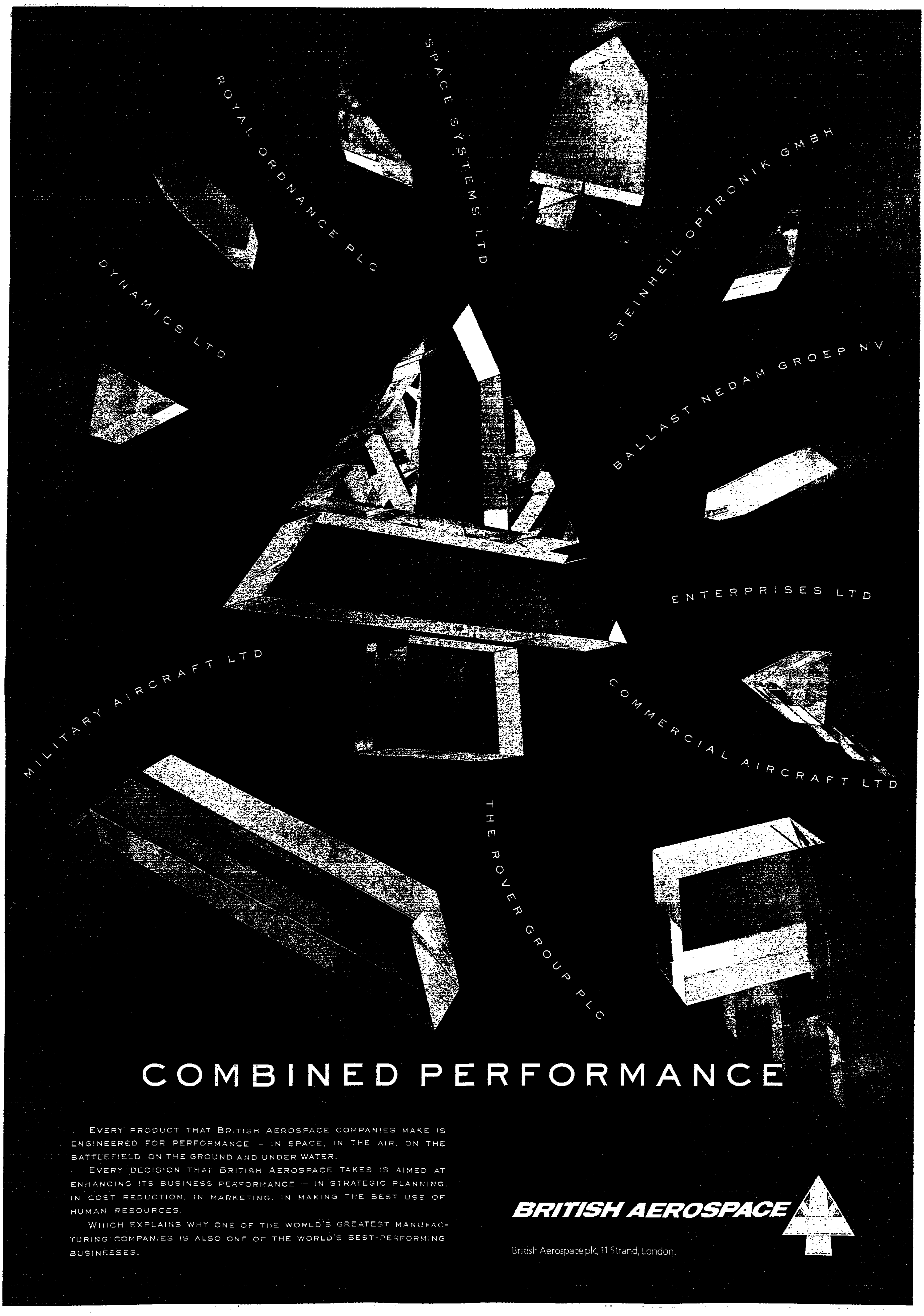
SANTIAGO'S smog has become so alarming that Chilean authorities have announced they will impose drastic measures if contamination grows more serious.

The city's air, particularly in the central business and government district, has neared danger levels for particle-content in recent days.

If the particle-content index *rises above 500* (or 330 microgrammes per cubic metre) Brigadier General Oscar Vargas, the Minister of Government, has said that 50 per cent of public transportation will be stopped from 10am until 5pm, private vehicles will be restricted by 20 per cent throughout the city, the 50 most contaminating industries will be restricted and use of home fireplaces prohibited.

If the index goes over 650, authorities will restrict 50 per cent of public transportation all day, schools will be closed, restrictions will be placed on the 100 most contaminating industries, private vehicles will be restricted by 50 per cent in the city centre and 20 per cent in the rest of the city, and use of home fireplaces will be prohibited.

Last Friday, the particle index rose to 878. This brought immediate irritation to eyes and throat and a suffocating sensation of heavy air.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UK NEWS

Highest bidders will win new broadcasting licences

By Raymond Snoddy

BRITAIN'S independent broadcasting licences will be put up for sale to the highest bidder – except in exceptional circumstances – the Government said yesterday.

The Government has rejected pleas from the Independent Broadcasting Authority that there should be a 2-3 year block on the takeover of broadcasting companies on the stock exchange.

Takeover could come under the new licences, which begin in 1993, although new owners would have to take over the obligations of the licence.

The controversial measures were announced by Mr Douglas Hurd, the Home Secretary in a package of proposals which will form the heart of a comprehensive new broadcasting bill due to be introduced in Parliament later this year.

The Government also indicated limits may be set on bids for UK broadcasting franchises from other European Community countries. Mr Timothy Rention, the Home Office minister responsible for broadcasting, hinted some limits could be imposed similar to the maximum levels of foreign ownership set in other EC countries.

"I think the principle of reciprocity is a very important one," Mr Renton said.

The ruling Conservative Party has remained true to its free market principles but the package differs from the policy document published last year.

Mr Hurd told the House of Commons the "quality threshold" was being strengthened for all potential bidders for licences on Britain's Independent Television channel and the new Channel 5 licence. Broadcasters will have to provide "a diverse" and "high quality" service in as well as news and current affairs.

Applicants would also have to post a performance bond with their bids which would be forfeited if they did not carry out their promises.

Mr Hurd said the highest bid should be accepted by the Independent Television Commission (ITC), the new regulatory body. The complex bidding process will be in two stages. The ITC will fix a percentage of net advertising or subscription revenue for each licence as a minimum sale price. Applicants will then have to pay a lump sum on top.

But in a move that will help the smaller ITV companies both sums will be paid annually over the 10 year licence period to avoid large debt payments.

Mr Richard Dunn, chairman of the ITV Association and managing director of Thames Television, which covers the London area, said: "Cash is still the determinant of who gets the contracts except in exceptional circumstances."

Wales to get new factories worth £53m

By Terry Dodsworth and Christopher Parkes

MATSUSHITA of Japan and Kimberly-Clark of the US are to spend £53m on new factories in Wales, creating 370 jobs.

Kimberly-Clark, the US paper company best known in Britain for Kleenex tissue products, will invest £37m on a new mill, employing 120 people.

The mill will be built at Flint, North Wales, close to a £16m industrial paper products plant under construction. Kimberly Clark has operated a third factory there since 1983.

The group is also planning to establish a European headquarters in the area to run its service and industrial sector operations, which include offices in eight countries.

The two Matsushita plants, manufacturing electronic motors and magnetron tubes for microwave ovens, will be established in Cwmbran, South Wales. Matsushita, which trades under the Panasonic trade mark, is to spend more than £16m on the two plants.

Striking dockers get dismissal warning

By Jimmy Burns, Labour Staff

MORE than 200 dockers in three UK ports yesterday decided to end their unofficial action as employers warned that those remaining on strike could face dismissal.

By last night, dockers at the East Coast ports of Ipswich, Blyth, and Great Yarmouth were returning to work, while militant shop stewards at Liverpool, in the North West, and Tilbury, London, secured support for continuing disruption at seven other ports.

Another 59 dockers at Manchester port joined the strike, bringing to 3,466 the number of registered dockers on strike after the employers refused to negotiate a new national agreement.

Mr Nicholas Finney, director of the National Association of Port Employers (Nape), said yesterday: "There is an increasing risk that men who are still on strike when the abolition of the Dock Labour Scheme gets Royal Assent may well be dismissed."

Some employers, frustrated by the apparent resolve of their workforce to stay out, have been indicating that action against strikers may be taken before the Royal Assent – when the Queen signs the bill putting abolition into effect – on or around July 15.

Within Nape, however, there appears to be growing confidence that the unofficial action is fast running out of momentum and could collapse within the next few days.

Under the Government's trade union legislation, the official strike ballot mandate by Britain's largest union, the Transport and General Workers Union (TGWU), expires at midnight tomorrow.

Some TGWU transport union officials are hoping that the House of Lords – Britain's highest court – will next week rule in the union's favour and pave the way for a fresh national strike ballot which could be implemented in the immediate aftermath of abolition of the Dock Labour Scheme.

Airlines cover for grounded aircraft

By Lynton McLain

THE main UK airlines operating Boeing 737-400 airliners grounded by the Civil Aviation Authority on Monday had managed yesterday to arrange substitute airliner capacity.

There was considerable disruption on Monday evening, with some Air UK Leisure passengers facing 12-hour delays. Flights by other airlines affected by the grounding order, British Midland Airways, Dan-Air, Air Europe and Novair, were also delayed as the airlines sought cover on Monday.

A worldwide total of 30 Boeing 737-400 airliners are powered by the version of the Franco-American CFM 56-32-1 engine which caused problems for UK pilots at the weekend and which may have contributed to the crash of the British Midland Airways 737-400 airliner with the loss of 47 lives in January.

Twelve aircraft are UK registered and have been grounded by the CAA, the other 18 are operated European and Asian airlines.

Air Europe, the independent charter and scheduled airline operated by International Leisure Group, has the biggest fleet of Boeing 737-400s, with four aircraft. It said its flights had not been disrupted and it had acted to protect its air travel programme.

BMA took its two 737-400 aircraft out of service and sent the damaged fan blade from the affected engine of the aircraft that was diverted to East Midlands Airport on Sunday, to the Department of Transport's Air Accident Investigation Branch.

The airline is to use its existing spare capacity from its 22-aircraft fleet to substitute for the grounded 737-400 capacity. Dan-Air, is also using spare capacity from its 58-strong fleet to cover for its two grounded 737-400s.

Air UK Leisure, also with two of the aircraft, is seeking substitute capacity. It has already acquired the use of a McDonnell Douglas MD83 from Oasis Airlines of Spain and a Boeing 707 from Middle East Airways.

Engine-makers intensify investigation into faults

Focus shifts on Boeing 737-400 problems to fan blade failure

By Michael Donne and Paul Betts

THE investigation into the causes of the fan-blade failures in CFM-56-3 engines used in Boeing 737-400 airliners intensified yesterday, in an effort to minimise disruption to air services caused by the grounding of 12 aircraft in UK airline service.

Attention is focusing on CFM International, a joint company formed by General Electric of the US and Snecma, the French State-owned aero-engine manufacturer (which is now the world's fourth biggest engine builder after Pratt & Whitney, GE and Rolls-Royce). Both Snecma and GE build parts for all versions of the CFM-56 engines.

Investigators are also being helped by the UK's Air Accidents Investigation Branch of the Department of Transport, which has been studying the possibility that fan-blade failure in CFM-56-3 engines caused the crash of a British Midland Airways Boeing 737-400 jet on the M1 motorway last January.

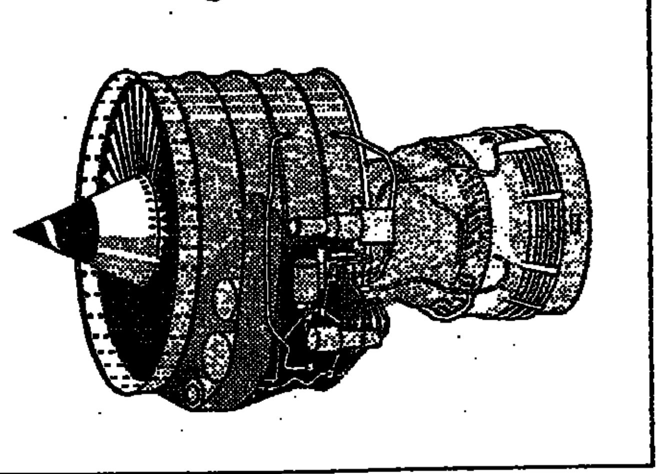
The similarity in recent fan-blade failures in CFM-56-3 engines in two UK 737-400 aircraft belonging to British Midland and Dan-Air, has intensified suspicions that the M1 crash was due to such failures, and raised fears of further accidents unless the mystery is solved swiftly.

For Snecma, responsible for the front end of the engine where the fan-blades are situated, the latest development is a blow, because its own investigation into the fan-blade failures in the M1-crash aircraft appeared to show them as an isolated incident. Now, there must be uncertainty about the integrity of the fan-blades in all the CFM-56-3 engines.

The problem under investigation has occurred in only a few examples of one version of the CFM-56 engine, and many thousands of engines in the same "family" are flying trouble-free.

The CFM-56 family of big-thrust engines is widely used in civil and military aircraft. Taking the entire CFM-56 family together, so far more than 6,000 engines have been ordered, of which more than 3,000 have been delivered, and they have accumulated over 12m hours of in-flight service over the past seven years.

CFM56-3 engine



Within this family, the difficulties now being experienced have occurred in only type, the CFM-56-3, used exclusively in three versions of the Boeing 737 short-to-medium range twin-engined airliner – the Series 300, 400 and 500, each having different range and payload capabilities for different airline tasks.

To date, more than 3,100 engines of the CFM-56-3 series alone have been ordered, of which 1,400 have been delivered, most of them being for 737-300s, with over 6m flying hours, and with only a small number of these engines involved in the Boeing 737-400 aircraft.

The fan-blade problem area is further narrowed, because it has so far only occurred in the 56-3C-1 version of the engine, with a maximum thrust of 23,500 lbs, and only 30 aircraft are involved – the 12 now grounded in the UK, and the 18 aircraft flying in Europe and Asia.

The other 17 Boeing 737-400s flying in the US use a different version of the engine, the 56-3B-2, with a lower maximum thrust of 22,000 lbs.

So far there have been no reports of similar fan-blade problems with any of the other Boeing 737-400s outside the UK.

Boeing and CFM International, however, have told all those other operators to use only the lower maximum take-off power of 22,000 lbs thrust instead of the 23,500 lbs of the 56-3C-1.

This is because the fracturing and disintegration of the fan-blades in the 56-3C-1 engines of the UK aircraft belonging to British Midland and Dan-Air occurred soon after take-off, when the engines were performing at maximum thrust.

It is hoped by cutting the maximum power output at take-off, there will be no more fan-blade failures, and that further groundings can be avoided, while the investigation is under way.

But should such failures occur, other airworthiness authorities outside the UK will be obliged to take the same action as the Civil Aviation Authority.

The investigation into the fan-blade failure will not only be concentrating upon manufacturing techniques, but also on the metal used in the blades on the engines involved.

On every engine built, every part is numbered, so it is usually possible to identify the specific metal used, identify their manufacturing sources, and determine whether they contained any faults.

Snecma has already begun some of this work in its inquiry over the M1 crash, but the search for problems is now being stepped up. Until the cause of the failures is found, and corrective action taken, the aircraft now on the ground will stay there.

Cause of botulism poisonings 'unknown'

IT IS not known precisely what caused the outbreak of botulism associated with hazelnut products, Mr Kenneth Clarke, the Health Secretary, told the Commons yesterday, writes John Mason.

Answering an emergency question, he promised a full investigation into the outbreak and said further legislation would be considered if necessary.

Mr Clarke named another eight dairy firms, the hazelnut yoghurts of which had been blocked by environmental health officers. All had received hazelnut purée from the Folkestone-based company Youngs Fruits.

He said no blame had been established anywhere and the move was simply a precaution.

Mr Clarke said there was no evidence to suggest there were difficulties with hazelnut products generally. However, he repeated his earlier advice to the public not to buy or consume hazelnut yoghurts.

Untreated milk 'not to be banned'

MR John MacGregor, Minister of Agriculture, has submitted to consumer pressure and decided not to ban the sale and distribution of untreated milk, writes Bridget Bloom.

He said his decision had been taken in spite of the higher risks of food poisoning from such milk.

Such milk accounted for only 3 per cent of total sales in England and Wales but four fifths of the 2,270 cases of milk-borne infections over the past seven years had been attributed to it, he said.

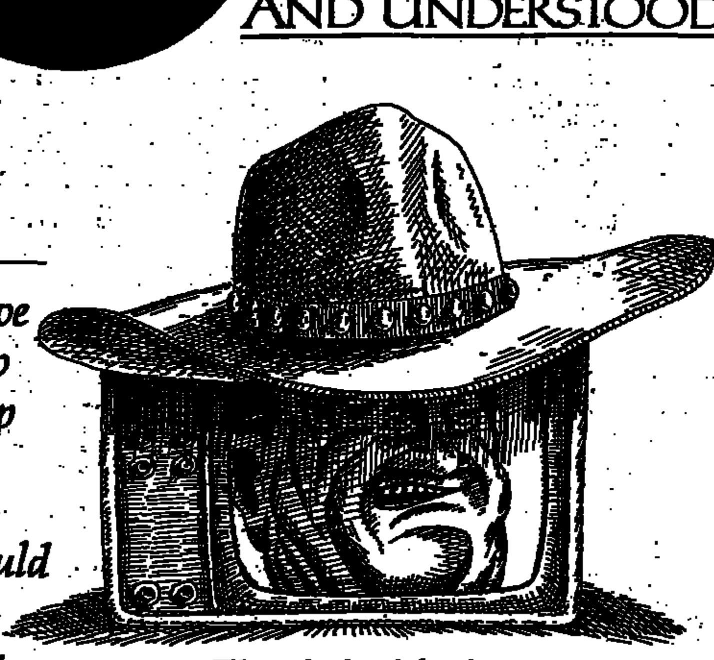
The Government first considered banning untreated milk in February, during the the crisis over salmonella in eggs and listeria in milk products.

The ban was not aimed at the use of untreated milk in cheese, partly because such as suggestion provoked a brief, though fierce, row with France, which feared for its cheese exports.

CLEARING THE AIR ABOUT HIGH-DEFINITION TELEVISION . No. 1

WHY IS IT THAT HDTV IS TALKED ABOUT BY SO MANY AND UNDERSTOOD BY SO FEW?

Many people feel they have a stake in HDTV yet few are in a position to grasp the big picture. HDTV stands for high-definition television. It could just as well stand for highly difficult technology.



TV so good it almost looks real.

At least that's where it started. But it's no longer purely a technology issue. It's political, cultural, and economic. By comparison, the technology seems easy.

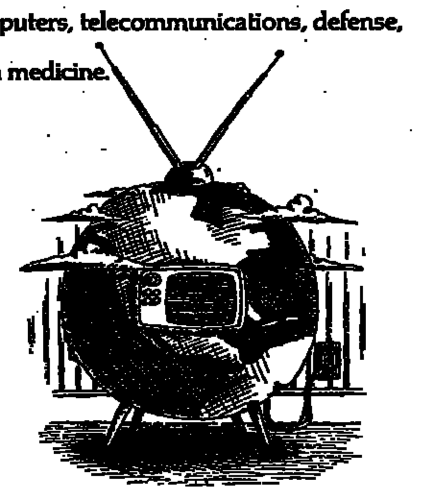
The goal of HDTV is to look like 35mm wide-screen movies. And sound like a stereo compact disc. Although the term is often misused to describe other systems with "improved" picture quality, true HDTV has at least twice the horizontal resolution and twice the vertical resolution of existing TV. That's twice the clarity. And pretty close to 35mm film.

The problem is that every field of a conventional TV picture already requires huge amounts of electronic information. And that information changes 50 to 60 times every second. In fact, TV, even more so than computers, is today's most demanding application for both data speed and data storage.

High-definition TV is five times more demanding than existing TV. It requires five times as much data, transferred five times as fast. And that's the crux of the technical issue.

TV requires a lot of data. HDTV requires five times more.

This leap in technology is so great that it could revolutionize not just the entertainment industry but many other segments of our lives. People are already claiming that this technology developed by the TV industry will be a driving force in advanced semiconductors, supercomputers, telecommunications, defense, even medicine.



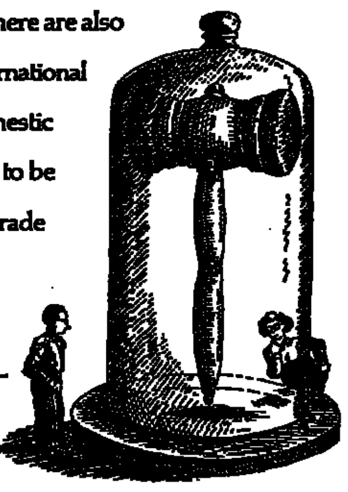
Who in the world is going to set HDTV standards?

And we're not talking about futuristic dreams. The professional TV equipment industry—which makes the equipment that makes TV—already has the ability to make HDTV products. We're already making the technological leap.

Here's what it comes down to. How good a picture do we want? And how much are we willing to pay for it? Who's going to set HDTV standards? Japan? Europe? The United States? Can we achieve one worldwide production standard? Who's going to make the programs and export the hardware—not just the consumer TV sets but the professional recording and production equipment?

Because there's so much at stake, any government decision should not be made in a vacuum. Without considering all the consequences. Many arguments about standard setting haven't even been heard yet. And some of the noisiest arguments are coming from people without television experience or an understanding of international trade.

Hundreds of major corporations are involved, with widely differing points of view—TV networks, production companies, cable companies, equipment manufacturers, consumer electronics companies, even the phone companies. There are also dozens of international as well as domestic organizations to be heard from—trade associations, government agencies, committees, subcommittees, and sub-subcommittees.



We can't make decisions in a vacuum.

All have something to gain. And many have everything to lose.

As the world's leading professional TV company—with customers in 115 countries—Ampex is in a unique position to understand both the technology issues and the trade issues.

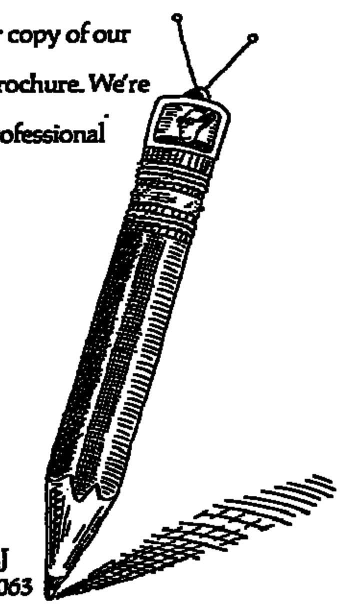
Some of the loudest arguments come from the most limited points of view.

We're ready for whatever challenges HDTV presents. And we're not asking for anything— not subsidies, not technology, not trade restrictions, not changes in the law.

Ampex Contributions to TV	
1956	The first commercial video tape recorder
1964	The first electronic video editor
1967	The first color portable video tape recorder
1967	The first color, stop-action, slow-motion instant-replay machine
1980	The first digital video paint system
1981	The first successful digital video system for 3-D special effects
1986	The first automated digital video recording system with advanced robotics

All we ask is that decisions not be made out of haste. Or apprehension. Or confusion.

For all the facts, write to us on your letterhead and ask for your copy of our HDTV information brochure. We're the world's leading professional television company.



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Conservatives braced for big Euro-poll losses

By Philip Stephens, Political Editor

THE Government appears to be bracing itself for significant losses in tomorrow's elections to the European Parliament after an unusually frank admission yesterday that it is trailing the opposition Labour party in its private surveys.

After a campaign marked by sharp divisions among Conservatives over their approach to European integration, Mr Peter Brooke, the Party chairman, said weekend surveys showed they were lagging about 5 points behind Labour.

His admission, alongside renewed fears yesterday of higher interest rates prompted by sterling's latest slide, strengthened Labour's hopes that the elections will show it to have emerged as credible challenger to the Government.

Mr Neil Kinnock, the Labour leader, has presented the European poll as a referendum on Prime Minister Mrs Margaret Thatcher's national as well as European policies, focusing more on domestic issues such as mortgage rates, the health service and the poll tax as on relations with Brussels.

Labour's campaign managers believe that securing a higher proportion of the vote than the Conservatives would both shake the Government and provide a firm endorsement of the results of their own two-year policy review.

If translated into votes on Thursday a 5 point lead would result in a transfer of perhaps 10 seats of the Conservatives' 45 to Labour's existing 32, which would give Mr Neil Kinnock the largest British representation in Strasbourg.

Heavy losses for the Government would also intensify pressure on Mrs Thatcher to carry out a big Cabinet shake-up in the ministerial reshuffle widely expected for next month.

Mr Brooke, however, stressed that he was confident that the gap between the two parties was closing in the last days of the campaign as the Conservatives launched a determined effort to submerge their internal differences.

Some MPs were predicting yesterday that a bad result in Thursday would force Mrs Thatcher to tone down her aggressive style in opposing moves towards closer monetary integration and European-wide social policies.

Candidates do battle over a Scottish seat

Michael Cassell reports on the election hopefuls fighting to win Glasgow Central

A FITTING battle-cry in the fight for the Scottish parliamentary seat of Glasgow Central, which ends tomorrow when voters pick a new MP, would be: "Hands up whoever hates Maggie most!"

With the obvious exception of Mr Allan Hogarth, the Conservative candidate, who seems marginally less popular locally than the poll tax – the Government's new community charge – the other eight candidates are hell-bent on proving their "anti-Thatcher" credentials.

The Prime Minister is portrayed as the wicked witch of the south and Government policies have earned her an image as 'She' who must be despised and defied; there is an almost Heathite inability to spit out the name and yet a compulsive urge to demonstrate just how much she is hated.

Mr Hogarth, a puppy-fresh advertising executive whose fast-talking gets him into still more trouble – "We have spent 30 years trying to create a problem" – is a brave man.

He is, no doubt, merely cutting his teeth in preparation for a better seat – presumably ready to cross the border to find one. For others, however, the battle involves a fight to the death. For the opposition Labour Party, by now used to being given a bloody nose by a nation which thinks the party is not nearly nasty enough to Mrs Thatcher, the loss of a 17,000-plus majority is unthinkable.

It will be no good whatsoever if the Labour Party successfully reshapes itself to attract sufficient voters in the south to make victory possible, only to simultaneously forfeit its Scottish stronghold.

Mr Mike Watson, a union official clad convincingly in Labour's identikit candidate kit, claims his new-look party now has the credibility to offer the people of Scotland the only real chance of defeating the Tories. He has, however, been misquoted, with some effect, as acknowledging that the government has a guaranteed majority in England and Wales "for ever and a day".

With opinion polls showing the majority of Scottish people want constitutional change aimed at giving the country more control over its own affairs, Mr Watson says Labour is in the vanguard of achieving a directly elected Scottish assembly. There are, nevertheless, strong local suspicions about the party leadership's real commitment to the idea of devolution. Labour's only real contender is the Scottish National Party (SNP), which spends half its time mocking the hallowed traditions of Westminster and the other half trying to get more MPs elected to it.

The SNP overturned an apparently safe Labour majority in Govan, another Scottish seat, and their candidate Mr Alex Neil – a former Labour party official – says Scotland is fighting for its life and that Labour's influence north of the border has been emasculated by its collapse to the south.

The SNP wants "a democratic revolution to get the English Tories off our backs, something which Labour has been unable to do for 10 years." The Nationalists seek a mandate to negotiate independence from the United Kingdom, followed by a referendum for the people to decide on the terms agreed.

After that, an independent future within the European Community. Its critics say the idea means economic suicide. The centrist Democrats, who have an impressive candidate in the shape of Mr Robert McCreadie, want a "home rule" party within a federal UK.

Mr Peter Kerr, also fighting for the middle ground for the Social Democratic Party, appears to want nothing more demanding than a good time. Together, the two candidates of the former Alliance parties are just about keeping up with the Green Party.

Opinion polls taken last weekend do not suggest that the SNP can expect another last-minute surge to sweep it to victory. Trailing Labour by 26 per cent – they were 30 per cent behind Labour at the same stage in the Govan contest – the Nationalists have only apparently achieved a 9 per cent swing since the 1987 general election. A swing three times greater will be required to repeat the Govan victory.

The odds must be on Labour, however, to keep its hold on the seat, albeit with a far reduced majority. Then it will be back to Maggie-bashing with a vengeance.

1987 general election: R. McTaggart (Lab) 21,619; B. Jenkin (C) 4,366; Dr J. Bryden (Lib/All) 3,528; A. Wilson (SNP) 3,339; A. Brooks (Green) 290; J.P. McGoldrick (Comm) 265; D. Owen (RF) 126. Lab maj 17,253.

Tory office attacked in Vauxhall poll

THE Conservative campaign headquarters for the Vauxhall by-election in South London was petrol-bombed on Monday night, it was learned yesterday.

Mr Mike Keegan, Conservative candidate in tomorrow's by-election, said a brick had gone through the door followed by the petrol bomb. There was evidence it was alight when thrown in, he said. Paraffin damaged some files, but there was no fire damage.

The by-election was called after the departure of Mr Stuart Holland, opposition Labour Party MP, to take up an academic post in Italy.

Mr Paddy Ashdown, leader of the Social and Liberal Democrats, supporting candidate Mr Mike Tuffrey, said the Conservatives were in a "serious tail spin." He said: "They've fallen out with themselves over the issue of Europe, and they're squabbling over the economy."

Ms Kate Hoey, Labour candidate, supported by Mr Gerald Kaufman, foreign affairs spokesman, concentrated on crime at her press conference, calling for new measures of crime prevention.

1987 general election: S K Holland (Lab) 21,364; D R Lidington (C) 12,345; S H V Acland (SDP/All) 7,764; J Owens (Green) 770; D J S Cook (Comm) 223; K Oluremi (Red Front) 117.

Electricity plans will 'blaze trail' in Europe

By Maurice Samuelson

MR MICHAEL SPICER, UK Energy Minister, claimed yesterday Britain's shake-up of the electricity industry provided a model for the rest of Europe and would "blaze a trail" towards a European energy market.

He also rejected claims that the Electricity Bill, which will privatise the industry and is now before Parliament, made inadequate provision for encouraging energy efficiency and environmental improvements.

Mr Spicer's comments, to an IBM conference in Bournemouth, southern England, reflected mounting controversy about Europe on the eve of tomorrow's elections to the European parliament.

He said the Government's electricity privatisation plans would show other EC countries the benefits of the common carriage of electricity between and within member states.

Thanks to the 1983 Energy Act, the UK was the only European Community country whose National Grid had statutory common carriage provisions. The privatisation bill would further strengthen access to the transmission system, giving generators, in Britain and the rest of Europe, rights to use to the network.

Mr Spicer's defence of electricity plans showed how deeply the Government was stung by its defeat in the House of Lords, Parliament's second chamber, on the Electricity Bill when an amendment was passed giving the Energy Secretary powers to order electricity suppliers to take specific efficiency measures.

He dismissed as unrealistic and misguided those who argued for the US system, known as "least cost planning", whereby new power stations can only be built once energy conservation measures have been explored.

Such an approach, said Mr Spicer, would mean that ageing, polluting and inefficient plant would operate for far longer than they should, thus harming the cause both of efficiency and the environment.

The Government's structural reforms, on the other hand, would have the effect of bringing forward more efficient and therefore cleaner ways of producing electricity.

Support for the nuclear industry, through the non-fossil fuel obligation, would also benefit the environment, as well as providing diversity and security of supply. "Each new PWR (Pressurised Water Reactor) station will reduce UK carbon dioxide emissions by 6m tonnes a year against a coal-fired station."

●Phillips Petroleum was yesterday given permission to start the £54m phase two development of the Audrey gas field in the southern North Sea.

The development was the second new gas project to be authorised in a fortnight by Mr Peter Morrison, junior Energy Minister.

The Audrey field was discovered in 1976 in block 49/11a. Gas production under phase one of the project began in October 1988 from six wells at an unmanned steel platform and sub-sea well nearby.

The new development, involving a second unmanned platform with provision for six wells, aims to increase gas sales to British Gas to a maximum 450m cubic feet per day from October, 1990.

McDermott's yard in Ardesier has won the £5.4m contract to build the unmanned platform.

Following his approval, Mr Morrison said that with 12 offshore projects currently being examined by the Energy Department, the outlook appeared "promising" for the oil supplies industry.

Last year had seen record investment by operators and in 1989 the pace showed no signs of slackening.

In Brief

Sugar jobs axed in drive for efficiency

BRITISH Sugar, the wholly owned subsidiary of Berisford International, is to axe 365 jobs or about a tenth of its workforce at its sugar processing factories in eastern England.

The company said yesterday the move to seek redundancies, which it hopes can be achieved voluntarily, was part of a plan to improve efficiency in the run up to the creation of the single European market in 1992.

A company spokesman said it was felt the early 1990's would see rationalisation of the European sugar industry.

Coats closure

Coats Viyella, the biggest textile group in Europe presently in the throes of a £395m takeover bid for Tootal, is closing a carpet factory at Batley in Yorkshire with the loss of nearly 150 jobs.

The Batley factory has been run down over the last few years as Coats has concentrated its production at Donaghadee in Northern Ireland.

Race law call

British race relations law needs to be strengthened and backed up with more adequate resources, the Commission for Racial Equality said yesterday.

"Official thinking on race issues is too unambitious and budgets far too small," said Mr Michael Day, the commission's chairman, in his annual report.

UDM mine rights

The Union of Democratic Mineworkers, the group of British miners which split from the left-wing National Union of Mineworkers during the 1985 coal strike, has signed an agreement with British Coal giving it sole negotiating rights at the proposed £90m Margam mine in South Wales.

Labour HK stand

Britain's opposition Labour Party has signalled its opposition to any move by the Government to grant full British passports to selected categories of people in Hong Kong, but it refused a commitment to give such rights to all 3.25m British citizens in the colony.

'Car waste' pollutants found in Antarctica

By David Fishlock, Science Editor

TRACES of pollutants assumed to have come from the emissions of motor vehicles in the northern hemisphere have been detected in Antarctic snow by the British Antarctic Survey.

Mr David Drewry, the survey's director, said cadmium, lead and zinc as well as hydrocarbons had been found in snow, and traces of DDT and other agricultural chemicals had been found in the tissues of seals.

The British Antarctic Survey first reported the so-called "ozone hole" or region of depleted atmospheric ozone above a large area of Antarctica.

Britain is investing over £50m to develop its research base at Halley in Antarctica as a relatively sensitive location for studies of global climatic phenomena such as atmospheric ozone depletion and the greenhouse effect, the Government said yesterday.

But Mr Drewry warned that the increasing accessibility of Antarctica to tourists brought its own risks of interfering with their experiments.

Mr Kenneth Baker, Secretary for Education and Science, said the £50m allocated by government through the Natural Environment Research Council would fund a new research vessel, a gravel airstrip, a large research aircraft and a new base for the scientists.

"Climate change is a world-sized problem and one where only concerted action on a world scale can make any significant effect," Mr Baker said.

All these shares having been sold, this announcement appears as a matter of record only.

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June, 1989

Spanish industry

The rise of an acquisitive papermaker

Peter Bruce, in Madrid, explains how Torras Hostench has become not only one of the country's largest conglomerates but also one of the few with multinational ambitions

Jorge Núñez first met Javier de la Rosa on a flight between Madrid and Barcelona in 1985. It was, for both men, a fateful trip. Bull-necked industrialist meets street-wise financier.

Their association has blossomed into the most absorbing Spanish industrial saga of the 1980s and placed De la Rosa in *de facto* control of one of Spain's biggest and newest industrial conglomerates - Torras Hostench.

By Spanish standards, Núñez had had a varied industrial career. An electromechanical engineer, he had worked in management at a shipyard in Marseilles, studied in the US, and, in 1972, joined Torras Hostench, then a little known Catalan paper company, as finance director.

Torras was expanding but the oil shock of 1973 nearly crippled it. In 1981 it lost Pta 1.3bn (£6.5m) and in 1983 stopped paying its debt. Its bourse listings were suspended. Núñez, after a row with the company's then president, had left in 1980 but was persuaded by creditor banks to return as chief executive in 1982. The chairman by then had left the country.

Núñez rescheduled debt, closed loss-making operations, and cut the workforce by about 20 per cent. Debt repayment resumed in 1985, by which time profits had recovered to Pta 1.6bn.

De la Rosa, now 41, was better known. A glittering banking career had just ended badly with the bank he ran in Barcelona stumbling into heavy losses. Banesto, which controlled the bank, once put these at Pta 74bn. Spain's crusty financial establishment pointed fingers at him but never backed up with fact the whispering campaign that followed.

By the time he and Núñez met, Spain was just a few months off joining the European Community. Torras was looking for new capital and De la Rosa knew that a former banking client, the Kuwait Investment Office (KIO), was looking for a vehicle through which to make long-term investments in Spanish industry.

KIO, advised by De la Rosa, had already bought Inpacsa, a producer of paper packaging and it did not require a big logical leap to settle on Torras as a next step. In October 1986, KIO, again prompted by De la Rosa, bought 24.9 per cent of Torras. "They (Torras) had cash, good management, and the paper cycle was going up," he remembers.

KIO helped pay off Torras' debt - some Pta 11bn - and in March 1987 Sheik Fahad Mohammed Al-Sabah, KIO's president, became chairman. De la Rosa became one of three vice chairman, the senior board member resident in Spain and its only Spanish speaking vice chairman. He became, to the excitable Spanish press, *el hombre fuerte de KIO en España*, KIO's strong man in Spain, a label that still irritates him.

KIO, possibly because it was Arab and rich and secretive, and De la Rosa, possibly because he had not taken his earlier troubles lying down, were quickly promoted as the devils incarnate of the new wealth spreading across the land and had to work hard to convince the Government and media they were serious.

Núñez, however, was not worried about his new bosses. "If someone has the money and wants to be chairman," he says waving a hand that looks like a small excavator, "I say *por favor*. My risk was my profession. Their risk was their money." Núñez's faith has improved his profession.

With KIO's backing, Torras Hostench bought Pamesa, a quality paper producer, in late 1986, and was later to take over KIO's stake in Inpacsa. It also owns 3.9 per cent of ENCE, the state owned pulp and paper producer.

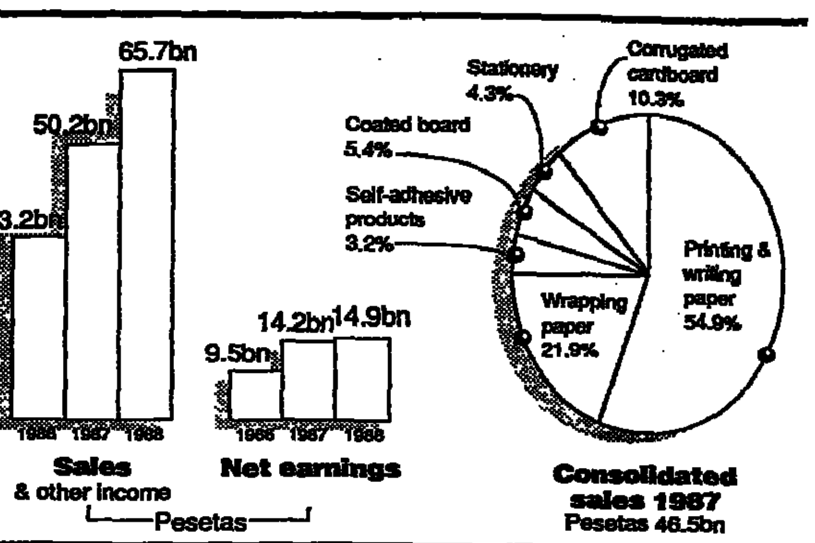
But De la Rosa, a ferocious gatherer of industrial and financial intelligence and today an important independent investor in his own right, had never intended to end his days making paper. In July 1987, true to his dictum – "buy, capitalise, restructure and, possibly, sell again" – Torras launched a Pta 55bn rights issue, the biggest ever then in Spain. The new funds would be used for acquisition. Torras Hostench would become a holding company with Núñez as its chief executive.

'My customers don't have to keep stocks because I have the stocks'

The new group quickly bought 50.01 per cent of Cros, a struggling Catalan fertiliser group with turnover then of Pta 51bn, net profits of Pta2bn and deeply indebted.

The next step was harder. Union Explosivos Rio Tinto (ERT) was the pride of the Spanish chemicals business. An oil refiner, it was also the country's biggest private sector arms producer, and fought vicious fertiliser price wars with Cros. But ERT was also struggling. The company had lost Pta 10bn in 1985 but was slowly recovering under Jose Maria Escondrillas, a company doctor appointed by the Government in the early 1980s.

Jorge Núñez



Escondrillas fought hard and loud against the Torras-KIO intrusion but proved no match for De la Rosa's staying power and KIO's money. When Escondrillas warned that a takeover meant an Arab stake in Spain's defence industries, De la Rosa offered to hive off and sell the arms division.

The Government, relieved that someone else would also clean up ERT's remaining Pta 64bn debt and end the fertiliser wars, washed its hands of the group. Through Cros, Torras Hostench now owns 24.6 per cent of ERT and intends formally to merge the two this summer, creating a potentially powerful new Spanish company, Ercros, worth a net Pta 165bn, of which it will own 40 per cent.

Hardly had De la Rosa led a nervous KIO through the ERT storm than he laid his dread hand on EBRO, the country's biggest sugar refiner. Once again, the Arab ghost was raised in defence and once again to no avail. De la Rosa-KIO-Torras won Ebro in Spain's first ever hostile takeover early last year.

Torras also splashed out in 1988 on 50 per cent of a stockbroker, Beta Capital, 95 per cent of a small insurer, Amaya, and 37 per cent of ERPO, an engineering consultant. It ended the year with a Pta 45bn rights issue, after which KIO's stake in the group fell to 40 per cent.

KIO, meanwhile, had independently become involved in a messy venture with two Madrid tycoon cousins, "los Albertos", and taken a 13 per cent stake in Banco Central, which was trying to shake them off by merging with Banco Español de Crédito (Banesto). Opposition to the merger by the Albertos (and, by association, KIO) irritated the Government and was embarrassing the Kuwaitis.

But KIO was obviously pleased with Torras Hostench. It had became a respectable holding company with subsidiaries in paper (Torras Papel), chemicals and fertilisers (Ercros), food and distribution (Ebro) and services, Beta Capital, Amaya and ERPO, capitalised in Madrid at around Pta 300bn. It is listed now in London and new York and, as Torras officials never tire of pointing out, the group fitted together like a puzzle.

Spain, with its fast-growing eucalyptus resource, was a good place to base a southern European paper company. Chemicals and fertilisers would balance paper's erratic business cycle. Food was an essential and stockbroking, insurance and engineering services could all serve the group while going about their normal business.

It seems to work, too. The group has quickly set about modernising plant, streamlining its marketing and is looking for acquisitions elsewhere in Europe. Group net earnings of Pta 14.2bn in 1987 were 49 per cent up on 1986 and included extraordinary gains from the sale of a small stake in Banco de Vizcaya in 1987. Last year the net profit was Pta 14.9bn. First quarter pre-tax profits for 1989, at Pta 5bn, were 65 per cent higher than the first three months of 1988.

At home, Núñez reckons Torras Papel is ready to face big foreign competitors. "We can now put 20 kilos of paper anywhere in Spain in 24 hours," he says. "My customers don't have to keep stocks because I have the stocks."

It has bought control of Cellulose des Ardennes Belgium (CAB) and taken out an option to buy Intermills, another Belgian producer. An attempt to buy Aussedat Rey, the large French paper company, failed when International Paper of the US stepped in with an expensive offer, but a French purchase combining paper and food is possible soon.

Ercros, the merged chemicals business, has been a more difficult because both Cros and ERT are widely diversified. De la Rosa hired Javier Vega de Seoane, once a senior executive with the state holding company, INI, and a confidante of the Minister of Industry, to run Ercros. The end of price wars should restore some profitability to fertilisers but it faces tough multinational competition in chemicals.

ERT's old oil refinery in southern Spain also sits awkwardly in Torras and, though it generates cash, is up for sale for Pta 40bn. So is the arms division, now hived off at the Government's insistence and on the market for Pta 35bn. De la Rosa says he will not accept less. Vega de Seoane is talking to his friends in INI about merging it with state-owned weapons businesses but the two sides disagree about how much they are each worth.

Ebro, though, has been a dream purchase. De la Rosa persuaded Manuel Guasch, an experienced industrialist and chairman of FASA Renault, to run the company and he has quickly diversified away from sugar.

He bought 60 per cent of Herba, Europe's biggest producer of long grained rice, where some analysts expect net profits to treble in four years. Arotz, another purchase, produces asparagus and strawberries, but also owns a unique 680-hectare black truffle plantation capable, when it begins producing next year, of meeting 75 per cent of world demand for the tiny black fungus.

Ebro has also bought into a Portuguese fish canning and edible oils group, Vasco da Gama, and a Spanish distributor, Ventex. Its core sugar business, rich in hidden assets, remains well cushioned by the Community's sugar quotas.

For at least a year now, Torras has carefully groomed its image as a homogenous Spanish chemicals, foods, paper and services group and one of the few with multinational ambitions. With some justification too – it was Beta Capital that found Arotz for Ebro – but the caution has clearly been driven by KIO's desire not to cross the Government or public opinion.

Torras would be ready to negotiate the sale of half its paper and chemicals interests

In the past few months though, political pressure on the Kuwaitis has evaporated. KIO got out of its compromising alliance with "los Albertos" after the latter had successfully destroyed Banco Central's plans to merge with Banesto. It has become an everyday, though massive, foreign investor.

The main beneficiary, though, is De la Rosa, who owns 15.8 per cent of Torras Hostench himself, and who is now free to play out his importance in Torras to the full. KIO admits it could not do business in Spain without him. For the moment at least, De la Rosa, not KIO, runs Torras Hostench, and he has some ideas of his own. (He concedes though that his attempts to persuade KIO to cut its stake from 40 per cent have not worked).

Setting out a fundamental change in Torras strategy in a recent interview De la Rosa said the group planned a major reduction in the "committment" to paper and chemicals. Food and services will become its core businesses.

"We will look for other partners in Ercros and Torras Papel," he says. Torras would be ready to negotiate the sale of half its paper and chemicals interests (the 100 per cent of Torras Papel and 40 per cent of Ercros).

He freely concedes now that while Ebro was bought for its profits, Cros and ERT (Ercros) were pursued for their assets. Ercros' considerable property portfolio has just been bought and resold by KIO's fast-growing Spanish property arm, Prima Inmobilaria.

Adds Antonio de Vasconcellos, Torras' representative in London: "We want to be number one in what we do. We cannot, in a European sense, be number one in chemicals nor number one in paper."

De la Rosa is thick-skinned enough to live with inevitable charges of "speculator" that will once again be laid at Torras' door if it does get out of paper and chemicals. In a country where insider trading is not an offence, buying and selling companies can nevertheless generate great emotion. Increasingly, though, older Spanish companies are following Torras' lead.

There is, anyway, still a lot to do in Torras Papel and Ercros. The paper company is still looking for foreign acquisitions. Ercros real estate sales, and the sale agreed this week of its Dr Andreu pharmaceuticals business, have helped cut ERT's debt by more than Pta 30bn to Pta 12bn and more asset sales are likely this year. The proceeds of KIO's sale of its partnership with "los Albertos", some Pta 16bn, should also be used to pay off debt.

Where De la Rosa will take Torras Hostench next is anyone's guess, though he has obviously developed a taste for blighted or undervalued industrial companies. "We have demonstrated that we can buy companies that no-one else wants," he says, and "the money now in Spain is to be made in industry, not in finance."

There does not appear to be a grand design. The group, says Núñez, is "opportunity led" and the only sure thing about De la Rosa is that he will assiduously court foreign capital markets. "You cannot restructure Spanish companies using only Spanish capital," he says. For a Spaniard who has had a hand in raising more than $1bn from shareholders in the Torras family in the past three years, he should know.

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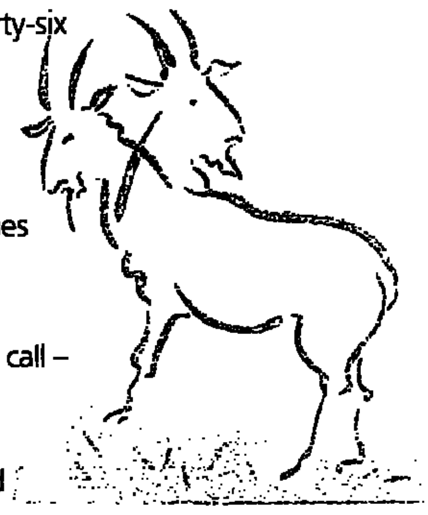

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FT LAW REPORTS

Reinsurer's claim is struck out

MEADOWS INDEMNITY CO LTD v INSURANCE CORPORATION OF IRELAND PLC INTERNATIONAL AND COMMERCIAL BANK PLC
Court of Appeal (Lord Justice May, Lord Justice Neill and Lord Justice Nourse): May 18 1989

A REINSURER cannot claim against the insured for a declaration as to the invalidity of the original insurance because, although he has an interest in its avoidance in that his own liability would be eliminated, the rights under the original contract attach not to him but to the insurer, and the court's declaratory power is limited to declaring the contested existing or future rights of parties to the litigation, not those of non-parties.

The Court of Appeal so held when allowing an appeal by the second defendant, International Commercial Bank plc (ICB), from Mr Justice Hirst's decision refusing to strike out the writ in an action by Meadows Indemnity Co Ltd. An appeal from his refusal to stay the proceedings and to stay third-party proceedings against ICB by the first defendant, Insurance Corporation of Ireland plc, was dismissed.

Order 15 rule 16 of the Rules of the Supreme Court provides: "No action . . . shall be open to objection on the grounds that a merely declaratory judgment or order is sought thereby, and the court may make binding declarations of right whether or not any consequential relief is or could be claimed."

LORD JUSTICE NEILL said that in September 1983 negotiations took place for a loan to enable Amaxa AG to buy a luxury hotel in Greece.

Negotiations also took place to obtain credit guarantee insurance whereby the lender of the purchase money would be insured against any risk of default by Amaxa.

Amaxa asked London brokers to obtain suitable cover. They approached the Insurance Corporation of Ireland, which got in touch with Meadows as proposed reinsurer.

It was subsequently alleged that in the course of the negotiations representations were made which affected the validity of the insurance and reinsurance contracts.

On November 24 1983 Insurance Corporation signed a cover note confirming insurance of a loan of SFr 11.5m. A loan agreement between Amaxa and ICB was signed on February 9 1984.

In 1987 Amaxa defaulted. ICB called on Insurance Corporation to pay on the credit guarantee insurance. No payment was made. ICB began proceedings in the Republic of Ireland, seeking to recover SFr 11.5m plus interest.

On October 7 1987 Meadows issued the writ in the present proceedings in England.

Against Insurance Corporation it claimed a declaration that Meadows was entitled to avoid the reinsurance. Against ICB it claimed a declaration that Insurance Corporation was entitled to avoid the insurance.

In December 1987 ICB issued a summons to strike out the writ in Meadows's action against it. Mr Justice Hirst dismissed the application. ICB appealed. It was not in dispute that Meadows would be entitled to claim a declaration as to the validity of the reinsurance contract between itself and Insurance Corporation.

However, Meadows sought to go further and to obtain a declaration as to the validity of the underlying insurance contract between Insurance Corporation and ICB. In that contention Meadows was supported by Insurance Corporation.

ICB contended that except in very limited circumstances, declarations could not be made at the suit of a person who was not party to the impugned contract.

Declaratory judgments originated in the old court of Chancery, where they could be made provided some consequential relief was sought at the same time. Since 1883 the matter had been governed by rule of court.

RSC Order 15 rule 16 (formerly Order 25 rule 5) provided that a court might make declarations of right whether or not consequential relief was claimed.

In *Guaranty Trust v Hannay [1915] 2 KB 536,562* Lord Justice Pickford said the effect of Order 25 rule 5 was to give a general power to make a declaration, whether or not there was a cause of action, at the instance of any party who was "interested" in the subject-matter of the declaration.

However, the scope of the rule now had to be looked at in the light of *Gouriet [1978] AC 435,501*. In *Gouriet* it was held that the court had no jurisdiction to declare public rights other than at the suit of the Attorney General, since he was the only person recognised by public law as entitled to represent the public in court.

Lord Diplock said for the court to have jurisdiction to declare a right it must be a right claimed by one of the parties as enforceable against an adverse party to the litigation.

He said "the jurisdiction of the court is not to declare the law generally . . . it is confined to declaring contested legal rights, subsisting or future, of the parties represented in the litigation before it and not those of anyone else."

In *Boulting [1963] 2 QB 606*, before Mr Justice Salmon and in the Court of Appeal, there was some consideration of the circumstances in which a declaration could be granted.

Mr Justice Salmon said the plaintiffs were "interested" in the subject-matter of the declaration sought, and were not strangers to the transaction. "Accordingly," he said, "it is wrong to say the plaintiffs have no *locus standi*." In the Court of Appeal Lord Denning said the court had power to grant a declaration "whenever the interest of the plaintiff is sufficient to justify it."

In *Eastham [1964] CL 413* Mr Justice Wilberforce said "to grant a remedy by way of declaration to the persons whose interests are vitally affected would be well within the spirit and intent of the rule as to declaratory judgments."

Mr Justice Hirst relied substantially on the *Boulting* and *Eastham* decisions.

He said that the interests of Meadows were vitally affected by the outcome of the dispute between ICB and Insurance Corporation since, if ICB failed against Insurance Corporation, Insurance Corporation's claim against Meadows would disappear – "They have a real interest and are not strangers to the ICB/Insurance Corporation transaction."

He said that the passages in *Gouriet* must be read and interpreted in their context, namely an attempt by a private plaintiff to invoke public law as a ground for an injunction. They were not intended to lay down any special limitation where a private individual sought relief in a private law context.

It was not possible to give so restricted a meaning to Lord Diplock's speech.

Despite the wide language of Order 15 rule 16, the court's jurisdiction to grant a declaration was limited, in Lord Diplock's words, to "declaring contested legal rights, subsisting or future, of the parties represented in the litigation before it and not those of anyone else."

Boulting and *Eastham* could readily be reconciled with the principle in *Gouriet*, because in both cases the plaintiffs were seeking declarations as to their legal rights which were in effect being contested by the defendants despite the absence of any direct contractual link. The declarations were being sought to resolve an issue between the plaintiffs and each of the defendants.

In the present case it was true that Meadows had a direct interest in the validity of ICB's case against Insurance Corporation, but there was no contested issue between Meadows and ICB.

That was not surprising because the right of an insured person to make a claim against his insurers did not arise until his own liability had been determined. By analogy the right of an insurer to make a claim against his reinsurer did not arise until the insurer's liability to the insured had been established.

Meadows was therefore not entitled to claim a declaration against ICB. Nor would ICB have been entitled to claim a declaration against Meadows.

One could see the good sense of a person being able to establish by means of a declaration the legal rights of a third person if those rights would in due course directly affect him as an insurer or reinsurer.

However, in the light of *Gouriet* such use of a declaration was not at present permissible.

ICB's appeal was allowed. Meadows's claims for declaratory relief against ICB were struck out.

Lord Justice May and Lord Justice Nourse gave concurring judgments.

For ICB: John Thomas QC and Richard Jacobs (Travers Smith Braithwaite).
For Meadows: Richard Aikens QC and Michael Howard (Ince & Co).
For Insurance Corporation of Ireland: Stuart Isaacs (Davies Arnold & Cooper).

Rachel Davies
Barrister

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The widening gap between wants and needs

By Michael Dixon

"HOW ABOUT this for a new law of organisational stupidity?," a company recruiting manager asked last Wednesday. Along with 79 other London members of the Institute of Personnel Management, he had just endured a lunchtime talk by the Jobs column on the laws already in the canon.

As it is months since I last mentioned them in print, I'd better explain that the laws describe various unplanned things that tend to go on in organisations to the chagrin of their staff and even more so their customers. The original model, laid down in 1958 by Professor Northcote Parkinson, states: *Work expands to fill the time available for its completion.*

Thanks to help from more than 200 readers over several years, up to last week I had identified 21 such laws. And the new one suggested by the recruiting manager followed the general pattern in being distilled from the originator's own experience. His proposed wording is: *Managers' wants and needs diverge with increasing seniority.*

"What our firm needs," he said, "is commercially numerate people. By that I mean recruits able to spot practical opportunities, such as good deals, in a great mass of figures. My masters know that as well as I do.

"But what they say they want – which, from their superior perspective, they assume to be the same thing – is graduates in numerate subjects like physical sciences and engineering as well as maths and statistics. Unfortunately, they aren't the same thing. However good they are at higher mathematics, they quite often can't put two and two together commerically.

"I reckon we'd do better by sending talent scouts round betting shops. Since it would be more than my job's worth to suggest it, though, my bosses don't get what they need. They get what they want even though, with so many employers bidding for graduates like that, it's very expensive."

Which said, he made me promise that I would not name the new law after him, and headed back to his office.

The trouble was that, although the recruiting manager had made out a good case for his suggestion in the context of his own particular job, I had never before included a law in the canon on the evidence of a single occurrence. The test for inclusion is that the proposed law must look likely to be at least as reliably predictive as the laws of economics, which means that it has to be in widespread operation.

As luck would have it, however, I have just come across a research report which indicates that the new suggestion does pass the test. The report, published in the latest Sundridge Park Management Review, is on a study of the production plants of 10 companies in Britain made by Professor Brian Houlden and Dr David Woodcock, respectively of the Warwick and the Nottingham University management schools.

They point out that a company's competitive edge often depends less on the quantity and cost of the things it produces, than on their quality and the promptness with which they are delivered. So the top managers crucially need information on quality standards and delivery times.

But most of the company chiefs studied did not call for that kind of data. What they wanted was information on quantity and costs. Hence, the report's authors say:

"We found that the managing directors were inundated with detailed data on output levels and costs, while at the same time being starved of strategic information on quality and delivery performance. In none of the plants investigated did the managing director know the proportion of orders meeting delivery promises, and the real level of quality dispatched...."

The researchers add that the apparent lack of top-level interest in such matters sent "subtle but powerful" messages to the production managers below about their chiefs' real priorities. "As a result performance in these key areas suffered, making it more difficult for marketing to win orders."

So, since there could hardly be a clearer case of managers' needs and wants diverging with increasing seniority, the 22nd law of organisational stupidity is hereby added to the canon. And being forbidden to use the name of the recruiting manager who revealed it to me, I'll call it after the first of the two researchers: Houlden's Hiatus.

International

RECRUITER Tony Normile of the Inter-Selection consultancy seeks someone to head the international insurance division of a big group based in the United States which he may not name. Accordingly – like the other headhunter who will be mentioned later – he promises to respect any applicant's request not to be identified to the employer at this stage.

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Successful applicants will be graduates, aged early-mid 20's, with 2 years' working experience in a financial environment.

Salaries are negotiable according to experience and career prospects with this rapidly expanding organisation are excellent.
There is a contributory pension scheme and free luncheon will be provided. A car can be provided as part of the total remuneration package and relocation expenses will be paid where applicable.
Please write stating age, qualifications and full details of experience to Senior Recruitment Assistant, Personnel & Management Services Department, Co-operative Insurance Society Limited, Miller Street, Manchester M60 0AL.
We would like to receive applications by 3rd July 1989.

Rathbone

CORPORATE FINANCE

AN OUTSTANDING OPPORTUNITY FOR AMBITIOUS, DYNAMIC INDIVIDUALS

Our client is a small, profitable and well-respected specialist financial services company. They are looking to expand their fee-income business base and would be interested to hear from individuals/groups of individuals with in-depth experience *and extensive contacts in any corporate finance activity particularly, but* not exclusively:-

MERGERS & ACQUISITIONS • PRIVATE PLACEMENTS
ASSET-BASED FINANCE • OTHER NICHE AREAS

Candidates should possess drive and initiative and be capable of operating autonomously from start-up.
You will be working in a young, entrepreneurial environment where scope will be limited only by your own horizons.
This is a substantial career opportunity and the remuneration package offered will reflect the importance the company attaches to this phase of their expansion.
In the first instance please telephone 01-439 1188 and speak to Sean Lord or, alternatively, write to:-

The Rathbone Consultancy
Premier House, 77 Oxford St, London W1R 1RB, England. Tel: 439 1188/287 5704 Fax: 494 0539

CAREER OPPORTUNITIES

A REPUTABLE FINANCIAL INSTITUTION REQUIRES THE SERVICES OF THE FOLLOWING PROFESSIONAL STAFF FOR THEIR HEAD OFFICE IN ABU DHABI, U.A.E.

1. TREASURER
The candidate should be capable of managing the foreign exchange, commodities futures & options, money market activities. Must have minimum of 10 years experience with reputable financial institution.

2. DEALERS
Knowledge of foreign exchange, deposits, bullion, futures & options is necessary with at least 5 years experience in the same field with reputable financial institution.
Age: 30-35 years.

3. BACK OFFICE SUPERVISOR
Must have in-depth knowledge of commodities futures & options, settlement and complete back office systems and procedure, with minimum of 5 years experience.
Age: 30-35 years.

EXCELLENT WRITTEN AND VERBAL SKILLS IN ENGLISH REQUIRED. PLEASE SEND APPLICATION STATING LAST COMPENSATION AND ACCOMPANIED BY RECENT PHOTOGRAPH, TESTIMONIALS, C.V. AND PASSPORT PHOTOCOPIES TO:

SENIOR VICE PRESIDENT,
FINANCE & ADMINISTRATION
P.O. BOX 25789, ABU DHABI,
U.A.E.

Jersey £35,000 + Car

Deputy General Manager Banking

Our client is the Channel Islands operation of a major UK banking and finance Group. Jersey-based, its growth now calls for the engagement of a Deputy General Manager. The prime responsibility will be to develop the bank's sterling and foreign currency deposit base via the extension of its private banking and financial services among high net worth individuals internationally.

The successful candidate will be aged mid-30's upwards and a qualified banker, preferably with Jersey residential qualifications. Experience will have developed a thorough capability in lending and bank administration, and the confidence to grow and manage a high net worth private banking operation in the Channel Islands or indeed elsewhere.

This is an important hands-on appointment, and the appointee will be expected to have the ambition, the authority, the presence, the persuasiveness and the involvement in the Islands' affairs that successful application will demand. In return, full support will be given and the benefits package will be commensurate with a post of this importance.

Letters of application, together with CV, salary progression and any other relevant data, should be sent without delay to the Managing Director, Performance Management Limited, 8th Floor, Peter House, St. Peter's Square, Manchester M1 5BH, quoting reference P160.

Performance Management Limited
MANAGEMENT CONSULTANTS

Jonathan Wren Executive

EUROPEAN MULTICURRENCY BOND SALES c£50,000

This international capital markets arm of one of the worlds largest banks has grown substantially over the last few years. To continue with the expansion they now require two additional salesmen, preferably with a European language, to work within their highly successful team. The role will encompass the sale of all fixed income and equity linked products to a wide ranging client base.

FINANCE MANAGER - INVESTMENT BANKING c£35,000

This role requires an assertive, proactive professional with excellent analytical skills and the ability to build management systems. Responsibilities will include financial analysis, vender management, building systems and the integration of new investment banking products into the firm's management systems. You will have a minimum of 4 years accounting/financial operations experience and be able to demonstrate responsibility and initiative with demanding professionals.

Please contact Nigel Haworth on 01 - 623 1266.

LONDON HONG KONG MIDDLE EAST SINGAPORE SYDNEY

Jonathan Wren
Recruitment Consultants
No. 1 New Street, (off Bishopsgate), London EC2M 4TP
Telephone: 01-623 1266 Fax: 01-626 5258

JUNIOR SPOT DEALER

PRIVATbanken Limited, the leading Danish bank in London, is currently seeking a junior spot dealer to strengthen its expanding spot team.

The right person will have at least one year's experience on an active spot desk and knowledge of the Scandinavian markets would be an advantage.

The remuneration package for this position includes a competitive salary together with subsidised mortgage, private medical care, non-contributory pension and life assurance benefit.

Please call Kim Petersen on 01-726 4751 for further details.

Please write with full CV to:
Mrs M Unwin, Personnel Manager,
PRIVATbanken Limited,
107 Cheapside, London EC2V 6DA

PRIVATbanken
Limited

DOLLAR TRADER

Do you want to work for an organisation which has a major market presence?

We are a prime international American bank whose trading reputation is second to none. In order to maintain this significant market position we are now seeking to recruit a proven Dollar Trader to join our team.

The ideal candidate will be in their early 20's with a minimum of 2 years' experience mainly in dollar futures. A working knowledge of cash and FRAs would be advantageous, although the prime responsibility will be trading futures.

This position would suit someone who is a good trader, but who wishes the opportunity to develop further in a dynamic organisation, therefore, the ability to work under pressure is a must.
The remuneration package, *including benefits, will reflect the standing of the organisation.*

Interested applicants should send full CVs, quoting ref PA614, to Portman Advertising, 25 Duke Street, London W1M 5DA. All enquiries will be forwarded to our client.

PORTMAN
ADVERTISING

IMI
SECURITIES

IMI Securities, London - the international stockbroker member of the Istituto Mobiliare Italiano (IMI) group of Rome - is seeking to recruit:

COMPANY AND QUANTITATIVE EQUITY MARKET ANALYSTS

Applicants should be able to work and write in English and be fluent in one other European language. They should already have relevant experience in financial analysis with a stockbroker, fund manager, bank or accountancy practice.

IMI Securities is active in the European stock markets (including the UK) and is one of the leading brokers of Italian and Austrian stocks in London. It is a growing company and offers a productive and friendly working environment.

Quality research is viewed as a key component of the company's product. The remuneration packages available reflect the substantial importance which is attached to these positions.

Please send you C.V. in confidence to:

Miss R. Fulgoni
IMI Securities Ltd
8 Laurence Pountney Hill, London EC4R 0BE

Manchester Business School

Europe's Liveliest Business School

TEACHING FELLOWS - 5 POSTS
CONVERSION FELLOWS - 4 POSTS

Manchester Business School has been chosen by the Economic and Social Research Council to make a major contribution to management education through the provision of Teaching and Conversion Fellowships. The Fellowship Scheme includes a training and development programme in management research and teaching.

MBS has particular interests in appointing Fellows to develop competence in the areas of Business Strategy, International Business, Retailing, Information Technology, Human Resource Development, Management of Technology and Banking and Finance.

Management Teaching Fellow appointments are open to candidates with the equivalent of Master Degrees in Management or related subjects and will initially be for three years.

Management Teaching Conversion Fellow appointments are open to existing members of academic staff of any discipline who wish to transfer to a career in management education. Conversion Fellows will be appointed initially for two years. Applicants with expertise in engineering, economics, geography, languages, psychology, sociology and anthropology are particularly welcome.

Closing date for applications is June 30 1989. Application forms and further particulars may be obtained from:
John Wilson, Manchester Business School, Booth Street West, Manchester M15 6PB Tel: 061-275 6333 Ext 6462/6461
Telex: 668354 Fax: 061-273 7732

UNIVERSITY OF MANCHESTER

Assistant Director
Risk Management Marketing

to £55,000 + Bonus + Car + Usual Benefits

This is an outstanding opportunity to join the marketing team of the Risk Management Group of one of the premier London banking institutions.

As a senior member of the team you will be responsible for both developing and expanding business with an existing client base located in the United Kingdom and Europe. The group prides itself on its innovative approach to risk management involving complex structured deals and a broad spectrum of risk management tools.

Probably in your late twenties/early thirties, you will be a graduate, preferably with a relevant professional qualification such as ACA and have gained at least three years' experience working in a leading swaps or risk management group. You will have been closely involved in complex transactions and problem solving situations.

This truly challenging role offers the opportunity to join one of the market leaders and for the ideal candidate the bank will negotiate an extremely competitive compensation package.

Interested candidates should contact John Green on 01-248 3653 or write, sending a detailed CV to the address below or use our confidential fax line on 01-248 2814. All applications will be treated in the strictest confidence.

76, Watling Street, London EC4M 9BJ

BBM
ASSOCIATES

Tel: 01-248 3653

CONSULTANTS IN RECRUITMENT

We have recently expanded our Investment and Securities Division in response to increasing business in this area. We are consistently required to find high calibre candidates for a variety of major financial institutions. We are currently seeking individuals with experience in the following sectors:

EUROBOND TRADERS	With good experience of ECU bonds.
EUROBOND SALES	Minimum 3 years' experience, client base and European languages.
EUROPEAN ANALYSTS	Individuals with experience of the U.K. and European markets. Knowledge of another European language essential.
DERIVATIVES	Candidates required with specialist knowledge of the futures/options and swaps markets.
FUND MANAGEMENT	Young accountants/lawyers required as assistant fund managers for a leading investment management company.
EUROBOND SETTLEMENTS	All Areas

If you have experience in any of the aforementioned areas, or are seeking a career move within the Securities Industry, please contact David Puddick or Wendy Fimm or alternatively send your C.V. All correspondence will be treated with the strictest confidence.

STERLING DEALER **c.£30,000**
A Sterling dealer in his/her late 20s is required for this expanding bank to run its £ book. Experience should include futures and other hedging instruments. Ideally the candidate will also have used other currency markets for arbitrage purposes.

FUTURES SALES **c.£30,000**
This large American bank requires an additional salesperson to join a small team responsible for marketing financial futures and options. You need not have existing experience in this area but must have a proven track record in selling Eurobonds or Treasury products.

CORPORATE DEALER **£35,000+**
If you are an ambitious dealer with experience of marketing to European Corporates this is a good opportunity to join the corporate dealing team of this well-established bank. The position will involve some travel and one or more European languages are essential.

For these and other opportunities in the Treasury area please contact Susan Fletcher.

127 Cheapside
London EC2V 6BU

Anderson, Squires
Financial Recruitment Specialists

Telephone: 01-606 1706
Telefax: 01-726 4031

Banking · Treasury · *Securities · Operations*

PENSION FUND INVESTMENT MANAGEMENT
£400M AND GROWING

The Halifax, a major force in the financial services market and the world's No 1 Building Society, is a growing organisation which relies on the quality of its people for success.

The effective management of our Pension Fund, with assets in excess of £400m, is an important link in the provision of a first class package for all our staff.

We now require an additional manager to join the small team in our Halifax Head Office who are responsible for Fund Investment Management. This is the senior post within the department below the Pension Fund Manager having day to day supervision of the U.K. equity portfolio. You will also have a key role in the formulation and implementation of overall investment strategy.

Candidates should be graduates and/or professionally qualified with a minimum of 5 years investment experience in a large self invested pension fund, or an institutional pension fund management organisation and have a proven track record of success.

The post carries an attractive remuneration package, commensurate with the importance of this key position in the organisation. To apply in confidence please send a full C.V. to: General Manager, Personnel and Services Ref. PFIN, Halifax Building Society, Trinity Road, Halifax, West Yorkshire HX1 2RG.

Halifax is fully committed to equal opportunities for all.

HALIFAX

Rathbone

SWAPS

The Rathbone Consultancy successfully places people within SWAPS departments from Settlements Administrators to Chief Executives.

Swaps Trader	An experienced derivative products trader with knowledge of trading in £ and DM. This position is with a AAA rated bank.
Swaps Marketing Executive	Experience of covering a large number of synthetic products and currencies, together with marketing to exisiting and new clients.
Swaps Accountant	A qualified or part-qualified accountant with knowledge of all accounting procedures within capital markets.
Swaps Settlements	Understanding of processing, preparation of P & L, cash flow forecasts, LIBOR refixing, documentation and interest payment calculations.
Swaps Financial Engineer	Sound knowledge of repackaging, warehousing and hedging.

In the first instance please contact Sean Lord on 01-439 1188 or, alternatively, write to:-

The Rathbone Consultancy

Premier House, 77 Oxford St, London W1R 1RB, England. Tel: 439 1188/287 5704 Fax: 494 0539

BOARD SECRETARY & LEGAL ADVISER

Middle East based **$ neg — tax free**

Our client, a respected Arab banking institution, enjoys a prominent position providing a full range of traditional wholesale, retail and commercial banking services, as well as investment related products. As a result of a corporate restructuring designed to meet an expansion of its activities, we have been retained to identify an additional member for the management team.

Reporting directly to the Board of Directors and to the Chairman of the Board, the incumbent will have overall responsibility to undertake all the necessary formal arrangements for meetings of both the directors and shareholders, and to ensure that the Bank is operating in conformity with its Articles and Memorandum of Association, and is in compliance with all relevant laws and regulations. He will additionally have responsibility for the issuance and cancellation of the Bank's share certificates. In relation to this activity, as well as to certain other legal or administrative issues which may arise from time to time, and which will generally relate to mainstream banking business, he will report functionally to the General Manager.

Candidates should possess an appropriate tertiary qualification and have at least 5 years' relevant experience of acting in the capacity of Board Secretary and Legal Adviser gained within a leading bank. Familiarity with the Mid-East, and its laws and culture, would be an advantage.

The confidential nature of the position calls for a dedicated, self-assured, tenacious and highly professional individual with well developed technical and interpersonal skills, which will enable him to blend harmoniously into the Bank's management team, as well as to represent the Bank externally.

The remuneration package will reflect the importance placed upon this key management position. In addition to a competitive tax free salary, comprehensive executive benefits will be provided.

If you feel ready to accept the challenge of this rare and exciting opportunity, please send your curriculum vitae in confidence to **Walter Brown, Executive Director, or Roy Webb, Managing Director, or call them for an initial discussion.**

INTERNATIONAL FINANCIAL RECRUITMENT CONSULTANTS

7 Birchin Lane
London, EC3V 9BY

Devonshire Executive Ltd

Tel: 01 895 8050
Fax: 01 828 2092

A member of the Devonshire Group Plc

Managers and Assistant Managers

International Corporate & Trust Consultancy and Management Services Group

c£14,000 to c£20,000 + benefits **Isle of Man**

Our client, a multi-discipline company offering a wide range of corporate services internationally, is seeking high calibre individuals to work as members of its Management Team.

The successful candidates will have a minimum of five years' experience in either a financial, legal or corporate administrative environment, at least three of which should have been in a position with some managerial responsibilities. An understanding of the statutory requirements of incorporated companies coupled with the ability to understand and respond to client requirements are essential. Probably aged late 20's to mid 40's, a company secretarial, legal or other business related degree is a prerequisite.

Apart from setting objectives, quality control and monitoring productivity in a time-based environment, an understanding of the principles of taxation, trusts and their administration would be advantageous.

Ability, determination and potential will be matched by the opportunity for career development within this successful and growing company located in this attractive low tax area.

Please write – in confidence – with full career details and current salary, (listing those companies to whom you do not wish your details to be sent) to: Charles Moore, ref. B24275, MSL Chartered Secretary, 32 Aybrook Street, London W1M 3JL.

MSL Chartered Secretary

Senior Banking Appointments

Our client is the growing UK banking subsidiary of a major international financial group. With a strong position in the mortgage, consumer finance and savings markets, the bank is now expanding its services to the business community. To help achieve major growth and diversification targets two senior executives are now to be appointed at Assistant General Manager level.

Manager – Business Development

Reporting to the General Manager, Sales & Marketing, you will have responsibility for developing new products and services, and for establishing and managing performance and profit objectives, working closely with the senior management team.

You will have had broad sales and marketing experience in a UK finance house or bank and be keen to make a major contribution to a growing business.

Credit Controller

Reporting to the Managing Director, you will establish and implement all credit policies and procedures, and create systems to monitor and control all credit exposures in the bank. You will ensure proper procedures for analysing and assessing risks, and for effective documentation of existing and new products.

You will have had sound credit training and broad credit management responsibilities in a UK finance house or bank.

Both appointments, which are based at the bank's head office in Southern England, will command attractive salaries and banking benefits including subsidised mortgage and car. If you wish to apply for either of these positions please write – in confidence – enclosing a CV and current salary details to Douglas Austin, ref. 7053, MSL International (UK) Ltd., 32 Aybrook Street, London W1M 3JL.

MSL International

Private Client Stockbroking

Individuals & Teams

Bristol/ Gloucester area **Remuneration Negotiable**

Our Client, a stockbroking arm of a major financial services group, wishes to strengthen its connections in the West Country. It is already operating an office in the area and now seeks individuals or teams who have their own client basis.

Our Client is dedicated to the development of a major stockbroking business on regionalised lines, operates with the advantages of being part of a major group, and, at the same time, has a high degree of flexibility in operation.

We would like to hear from Private Client Stockbrokers who live and work in the area, or who, alternatively, wish to relocate to the West Country. We shall be treating all enquiries on a totally confidential basis and will not be releasing names of individuals to our Client until after initial discussions.

We are, therefore, interested in hearing from individuals, from people working as a team or, indeed, from Chief Executives of stockbroking firms. Remuneration is negotiable and will, in any case, be in line with potential and actual contribution. Relocation expenses could be paid in specific circumstances.

Please contact, quoting ref. 959, Colin Barry or Keith Fisher, Partners, of Overton Shirley & Barry, Prince Rupert House, 64 Queen Street, London EC4R 1AD. Tel. 01-248 0355. (Evenings and weekends: 01-731 2243).

Overton Shirley & Barry
INTERNATIONAL SEARCH AND SELECTION CONSULTANTS

Overseas sales executive
required for old established company. Salary £25K plus company car, medical cover, attractive pension scheme. Please send full C.V. to:
Box A1261, Financial Times, One Southwark Bridge, London SE1 9HL

FINANCIAL ANALYST
£27,000
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FRUIT & VEG COMMISSION AGENT.
Vast experience, speaks French. Based Southern England, contacts throughout Europe, willing to travel.
Reply Box A1265, Financial Times, One Southwark Bridge, London SE1 9HL.

WANTED
Cocoa Terminal Traders to be part of new Futures operation.
Send C.V. to P.O. Box A1266, Financial Times, One Southwark Bridge, London SE1 9HL.

Head of Corporate Treasury

City **c. £75,000 + bonus + benefits**

This is a new position within the London treasury operation of a significant international bank. The tasks are to head up and build an existing team, to lead the marketing effort to existing customers, and originate and develop new relationships.

The Bank has a strong quality reputation and marketing will focus on several defined niche markets, predominantly medium to large corporates, institutions and asset managers.

The need is for a determined, skilled and successful corporate marketeer, aged over 30, with a breadth of experience covering the full range of treasury instruments. Team building experience essential.

Exposure to Continental or other overseas clients would be an advantage, together with a preparedness to travel.

Applicants should write enclosing a full CV with daytime telephone number, quoting Ref: 336 to Sara Cooke, M.A., Whitehead Rice, 43 Welbeck Street, London W1M 7PG. Tel: 01-637 8736.

Whitehead Rice

MANAGEMENT SELECTION

CJA

RECRUITMENT CONSULTANTS GROUP

3 London Wall Buildings, London Wall, London EC2M 5PJ
Tel: 01-588 3588 or 01-588 3576
Telex No. 887374 Fax No. 01-256 8501

A challenging appointment – scope to progress in major international group.

RISK CONTROL MANAGER —INSTITUTIONAL FINANCING

CITY **£30,000–£40,000 + BONUS + CAR**

LEADING INTERNATIONAL SECURITIES FIRM – NET WORTH $1 BILLION +

For this stimulating appointment, we seek candidates with bank credit training and at least 5 years' credit or lending experience. Reporting to the Senior Credit Officer – International, the successful candidate will be a key member of a small team, responsible for setting customer and counterparty credit and trading limits for a broad range of products and businesses throughout this major group, trading worldwide. Particular responsibilities will include SWAPS, securities lending, fixed income sales and trading and foreign exchange, working in close contact with, and responding to the needs of, the group's business units in a demanding and fast moving environment. There will be some foreign travel. Essential qualities are resilience and the ability to take a firm line while remaining as flexible as possible. Initial salary negotiable £30,000-£40,000 plus substantial performance related bonus, car, non-contributory pension and private medical insurance. Applications in strict confidence under reference RMIF 4673/FT to the Managing Director, CJA:

3 LONDON WALL BUILDINGS, LONDON WALL, LONDON EC2M 5PJ. TELEPHONE 01-588 3588 or 01-588 3576. TELEX: 887374. FAX: 01-256 8501.

ASSISTANT FUND MANAGER U.K. EQUITIES — British Airways Pension Fund

British Airways Pension Fund, one of the leading private sector Pension Funds with assets under management of over £3 billion, requires an Assistant Fund Manager for its U.K. Equity Portfolio.

The position will involve taking responsibility for managing a number of sectors and contributing to the overall U.K. equity strategy. Analytical work, dealing and further development of other members of the team will be essential elements of the role.

The successful candidate will have a good degree and/or appropriate professional qualifications with several years proven successful fund management experience.

He/she will be analytical, innovative, highly motivated and keen to accept the responsibilities involved in working for a major Pension Fund.

The successful candidate must also be able to maintain a good sense of humour whilst working in a performance oriented environment.

The ideal age would be 25-35.

The salary and remuneration will be as expected for the role with the additional benefits of working for a major airline.

Please apply with c.v. quoting ref. BR/1593 to:

Mr. Peter Moon, Investment Manager, British Airways Pension Fund, Alton House, 177 High Holborn, London WC1V 7AA.

BRITISH AIRWAYS

Major Pension Fund Investment Analysts

UK and US Equities

The assets of the ICI Pension Funds now exceed £4.5bn and are managed by IC Investment Management Limited which is located near Covent Garden. ICIM wishes to augment its experienced research team in order to implement its planned strategy for the 1990's. It is seeking enthusiastic and self-motivated people able to meet the challenge of this policy. ICIM requires two UK Investment Analysts and one US Investment Analyst, *whose ultimate ambition is fund management.*

Successful applicants, will possess a degree and have at least one to two years experience in the securities market. The expanded team will still be small and the exercise of personal initiative will be encouraged and expected. Responsibilities will include giving specialist advice to the Portfolio Managers on individual stocks, involving close contact with companies and stockbrokers.

There will also be the opportunity to become closely involved in the management of one or more smaller pension funds. Competitive salaries will be paid to the right candidates.

Please apply in writing to Miss G J Lyons, Head Office Personnel, ICI PLC, 9 Millbank, London SW1 3JF.

ICI

SENIOR TRADING OPPORTUNITIES

We are a major international American bank, with an undisputed record of success in its trading activities, who now seeks to expand its already experienced team.

We currently have the following vacancies for highly motivated individuals :-

Interest Rate Risk Trader: The ideal candidate will have at least 3 to 5 years' experience in trading all instruments, including cash deposits, FRAs, Futures and IRS in EMS and other currencies. He/She will be totally conversant with all arbitrage techniques and will be used to running large positions.

Sterling Interest Rate Risk Trader: It is necessary for the appropriate individual to have extensive knowledge of Sterling Futures, FRAs and strip arbitrage, together with a knowledge of all forms of short and long term interest rate risk instruments. Ideally this experience will be a minimum of 5 years trading in interest rate risk of which 3 years should preferably be in off balance sheet instruments.

Both of these opportunities require someone with a proven track record and will, therefore, suit individuals who want to work in a dynamic environment and who are not risk averse.

The remuneration package, including banking benefits, will reflect the importance of these roles.

Interested applicants should send full CVs, quoting ref PA622, to Portman Advertising, 25 Duke Street, London W1M 5DA. All enquiries will be forwarded to our client.

PORTMAN
ADVERTISING

Our client, a well respected international securities house, is currently seeking to augment their sales teams in the following areas:-

CONVERTIBLE BOND SALES

TO 30 YEARS **HIGHLY NEGOTIABLE PACKAGE**

Applications are invited from successful candidates, with between two and four years' experience of convertible bond sales to the Pacific basin area. Enquiries from sales people with similar experience in other geographical areas will also be considered.

EQUITY WARRANT SALES

TO 30 YEARS **HIGHLY NEGOTIABLE PACKAGE**

This is an excellent opportunity to contribute to a well established team. Three to four years' previous experience of equity warrant sales with a major name is essential.

Please telephone Nick Procter in strict confidence on 01-377 5040

EQUITY SALES – SCOTTISH REGION

c£50K+ BONUS+CAR+

AGE EARLY 30s **MORTGAGE SUBSIDY**

Major city institution seeks experienced manager to market UK/foreign equities to Scotland. It is highly desirable that candidates have fluent German.

Please telephone Sandra Clark on 01-377 5040

LJC BANKING APPOINTMENTS
Devonshire House,
146 Bishopsgate, EC2M 4JX

ljc

OIL/ENERGY MARKET ANALYST

We are seeking an outstanding, hard-working economist for a position in oil/energy market research. The candidate for this position should possess a minimum of fifteen years post-graduate experience with no less than ten years in research and operations in the oil industry. High quality performance will be expected from the successful applicant; candidates should possess post-graduate training in Economics and in use of Management, Petroleum Engineering and Chemical Engineering. Previous experience as oil/energy market analyst in a reputable organisation and demonstrated familiarity with the economics and policies of oil exporting countries are required for the job.

In the first instance, applications including detailed curriculum vitae showing work experience and salary history should be sent by 28th June 1989 to: Miss G. Morris, ARA Advertising, Cresta House, 17-19 Maddox Street, London W1R 0EY.

IF THE CURRENT CLIMATE in the city has reduced your earning capacity - call Edward Currie on 01-638 2593 and get back to being amongst the top earners in the United Kingdom.

CREDIT ANALYST

INTERNATIONAL BANK - CITY
Salary Neg.

Republic National Bank of New York, a major International Bank requires an additional Credit Analyst in its City Office.

The successful applicant should have a minimum of two years experience with an emphasis in the analysis of UK based financial institutions and the ability to anticipate the development of these skills into the international and corporate sector.

Formal US bank training and a second European language would be an advantage but not essential.

Please reply in writing to:

Mrs E. Hartley
Head of Personnel,
Republic National Bank of New York,
30 Monument Street,
London EC3R 8NB

Mitsubishi Finance International Limited
INTERNATIONAL ECONOMIST/BOND ANALYST

Mitsubishi Finance International Limited is the major securities and investment banking arm of The Mitsubishi Bank, Limited, principally concerned with the underwriting and marketing of fixed-rate, floating rate and equity-related securities, and fund management.

An opportunity has arisen within our research team for an International Economist/Bond Analyst. The suitable applicant will be responsible for running programs and producing graphics for several publications on the International bond markets. He/she will also make written research contributions and brief the sales team on the significance of data releases.

Applications are invited from graduates, preferably with 1-2 years experience gained in a Securities Trading/Investment environment. The suitable applicant should be computer literate, have a flair for graphics and possess excellent communication skills.

Salaries will be negotiable according to age and experience and benefits will be consistent with usual banking practice.

Interested applicants should write in strictest confidence enclosing a full C.V. to: Annette Wolfe, Personnel *Assistant, Mitsubishi Finance International* Limited, 1 King Street London EC2V 8EB

ANALYSIS PORTFOLIO MANAGEMENT LTD
(A member of IMRO)

INVESTMENT MANAGER

Analysis Portfolio Management Ltd, a subsidiary of The Analysis Group Plc manages private client portfolios and institutional Life and Pension funds. To support our continued expansion and *development we require* an investment manager with well developed communicating skills to join our existing investment management team.

The position will be based in the head office at Harrogate, a very attractive location offering immediate access to the Yorkshire Dales.

Salary will be commensurate with experience with usual large company benefits including car.

Please write with C.V. to Morris Osman,
Admin. & Personnel Director, The Analysis Group Plc,
Analysis House, 1 Park View, Harrogate HG1 5LY

DEALERS

FUTURES DESK	TO £50,000
LIFFE PIT TRADERS	£25,000 - £50,000
CURRENCY OPTIONS	TO £60,000
FINANCIAL ENGINEERS	TO £45,000
SWAPS	£30,000 - £55,000
EUROBOND SALES	£20,000 - £50,000
CORPORATE FOREIGN EXCHANGE	TO £55,000

Dealers who are interested in any of the above and many other dealing vacancies are invited to call Toby Thompson or Colin Donovan for a confidential and informal discussion.

BERTRAM GROUP BANKING
12-14 Devonshire Row, London EC2M 4RH
Telephone: 247 0367, Fax: 377 6405
1 minute walk from Liverpool Street Station

DIRECTOR OF RESEARCH

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TELEVISION

The end of an epoch

Christopher Dunkley discusses the implications of last week's decision that ITV franchises are indeed to be auctioned off to the highest bidder

No doubt the lady will not give two hoots but, after last week's revelation that ITV franchises are, after all, to be auctioned to the highest bidder, it begins to look as though history will see Margaret Thatcher as the destroyer of an extraordinary golden age in British television. From the end of the second world war until the arrival of commercial television in the mid 1950s the BBC was the sole producer of television in Britain. Since the Corporation saw television at that time as an inferior visual version of radio, its early service was, by all accounts, pretty unimpressive.

But when ITV arrived in the second half of the 1950s it made dramatic inroads on the television audience. By the autumn of 1957, Sir Kenneth Clark, chairman of the ITA, was claiming an audience split of 72: 21 in ITV's favour. The desertion of the audience shocked the BBC mightily and forced the Corporation to learn to produce more appealing programmes.

However, the BBC never lost the kudos which came from its early history in radio, and from its deserved reputation not only as a unifier of the British nation during World War II but as honest news broker to the world during that conflagration, and subsequently. The ambition in ITV was to win some of the BBC's prestige, and for a quarter of a century from the early 1960s to the late 1980s British viewers benefitted wonderfully from a symbiotic relationship in which commercial broadcasters strived to outdo the BBC at public service broadcasting, and the BBC strained to make programmes that were popular as well as good.

At the BBC the remarkably impressive results ranged from *Steptoe And Son* and *Till Death Us Do Part* to *Civilisation* (presented by none other than Sir Kenneth Clark, personnel crossing readily from ITV to the BBC and vice versa). In ITV they ranged from *World In Action* (perhaps the most consistently hard-hitting current affairs series ever) to *The South Bank Show* and *Brideshead Revisited.*

These programmes would not have been made but for a sequence of Byzantine British compromises which — for example — ensured that public service broadcasters were urged to entertain as well as inform and educate, while commercial broadcasters unlike their counterparts in, say the US, were not allowed to make merely game shows, comedies and soap operas but legally required to supply drama, current affairs and education.

Of course, being a popular mass medium, British television did produce huge quantities of rubbish, from *Take Your Pick* to *Crossroads*; and, public service being what it is, a lot of fairly dull and boring programmes were produced, too. Nobody denies that. But the big difference between television in Britain and elsewhere was the odd way in which commerce and public service were both combined and forced to compete in the UK.

It was these peculiar arrangements, with all the odd financial details of licence fee and Treasury levies, which led to the development in Britain of television companies like Granada which, although definitely commercial, were capable of producing drama series such as *Jewel In The Crown*, and anthropology series such as *Disappearing World* which, in quality terms, knocked spots off anything that even public service broadcasters elsewhere could achieve.

The regularity with which British broadcasting carried off the top honours at international programme festivals during the 1960s, 1970s and early 1980s became almost tedious. During this period — when British textiles, British cars, even British football teams, were sliding rapidly out of view in the international leagues — British television was seen internationally as an outstanding example to the rest of the world.

The BBC was still the best known British broadcasting organisation (to this day most Americans assume that *Upstairs Downstairs*, *Survival* and *The World At War* are BBC programmes and there is an odd spiritual sense in which they are) but it was London Weekend which kept on winning international arts awards with its *South Bank Show*, and Thames and Central which won so many documentary awards.

'The glory of British television has been its willingness to produce that something special . . . All the signs now are that Margaret Thatcher is ringing down the curtain on that golden age'

Given the way in which Alfred Roberts, grocer and alderman of Grantham, served as such a strong symbol for the combination of commerce and public service, it seems odd that his daughter should have so little understanding of the manner in which the two can complement one another. Yet, by the early 1980s, it was clear that Margaret Thatcher had no sympathy whatsoever for this combination in British television, benign and productive though it had proved to be.

At the BBC her appointment of governors produced a board which, for the first time in the history of the organisation, was clearly slanted towards the Government's point of view. Moreover the spirit of Thatcherism ensured that, also for the first time, the BBC had as its director-general not a programme maker or journalist but an accountant. Gratifyingly the Thatcher administration has not gone the whole hog and commercialised the BBC, but the influence of that administration, so pervasive and powerful thanks to successive election victories, has ensured the disappearance of the vitality and daring which once characterised the Corporation.

Yet the effects of Thatcherism on ITV have been even more malignant. For the best of times the "beauty contest" franchise system made for irritating stop-go policies of programme production. Licence holders would spend the two years before a new franchise-round desperately trying to win brownie points by making worthy programmes, and the uncertainty about retaining licences caused unwillingness to invest, and a tendency to diversify into motorway restaurants or travel companies while the going was good.

Similar uncertainty has been running riot through ITV for a long time now, thanks to the Government's habit of keeping television on the back burner and periodically snatching the pot off for a quick stir: the Peacock Report, the attack on trade union practices, the White Paper, and so on. Now, with the revelation that licences will, indeed, be put up for auction in 1992, franchise blight looks set to ruin our chances of high risk, high cost, high quality programming from ITV for the next three years.

The gloomy prediction of two years ago that "We'll never see the likes of *Brideshead* or *Jewel In The Crown* again" do, now, begin to seem accurate. Some of those at high levels in ITV companies are saying that not one of the existing franchise holders will be able to afford its own licence when it comes to the auction. Even if you regard such gloom as PR hype, and assume that some of the companies will win through, albeit in straitened circumstances, it is clear that none of them will be keen to go on spending large sums for very long (big series need four or five years of production these days) if they are not even sure they will still be in business in January 1993.

A close study of what actually appears on screen suggests that the process of blight is already well advanced. There is nothing much wrong with *Bellman And True* (a powerfully atmospheric *Rififi* style thriller) or *Tales Of Sherwood Forest* (a series about a dive bar, remarkably similar to BBC2's *The Ritz* two years ago) or *The Manageress* (Channel 4's fashionable feminist fantasy about a woman running a football club). All are entertaining and professionally sound, and the first and last have good export prospects. But nobody could feel their screening to be national events.

When the new brutalists of the second age of television — the men who believe in satellites, global programming and bottom lines — hear arguments such as this they tend to sneer and assert that, just as the Thatcher cabinet believes, making programmes really is just like making paperclips: a matter of industrial efficiency and satisfying the demands of the market. Articles such as this, they say, are merely special pleading for a minority who want something special. *And that, of course, is absolutely true.*

The glory of British television for the last quarter century has been its willingness and ability to produce that something special, regularly, in addition to the candyfloss offered by commercial television companies around the world and the dull worthiness so often provided by public service organisations. All the signs now are that Margaret Thatcher, politician, is ringing down the curtain on that golden age.

Napoli

DOMINION THEATRE

English National Ballet, the *ci-devant* London Festival Ballet, began its first season under its new name on Monday night. I hope it is not an omen that the company should find itself in the unlovely surrounding of the Dominion Theatre, nor that the evening should have seemed unconscionably long. The Dominion, with its glum interior — pitch-dark walls and miserly lighting — is calculated to lower the spirits of any audience, and it seemed to cast a pall even over the sunny felicities of *Napoli*, receiving its initial performance by the company in Peter Schaufuss' staging.

Napoli is Bournonville's masterpiece, his tribute to the city he stayed in for four months in 1841, and whose life he loved and recreated for us on the ballet stage. "In Naples, everything is intensified," he wrote, and by distilling the vitalities of life as he saw it around the port, he produced one of the most enduringly lovely works in the whole history of ballet. How the hero, Gennaro, wins his Teresina is the dramatic thread on which the choreographer combined buoyant dance and no less buoyant portrayal of the street life of the city, a delight in local colour and a belief in moral propriety so central to his creativity. (Simple faith and a holy medallion bring the lovers to happiness and defeat dark and mysterious erotic forces).

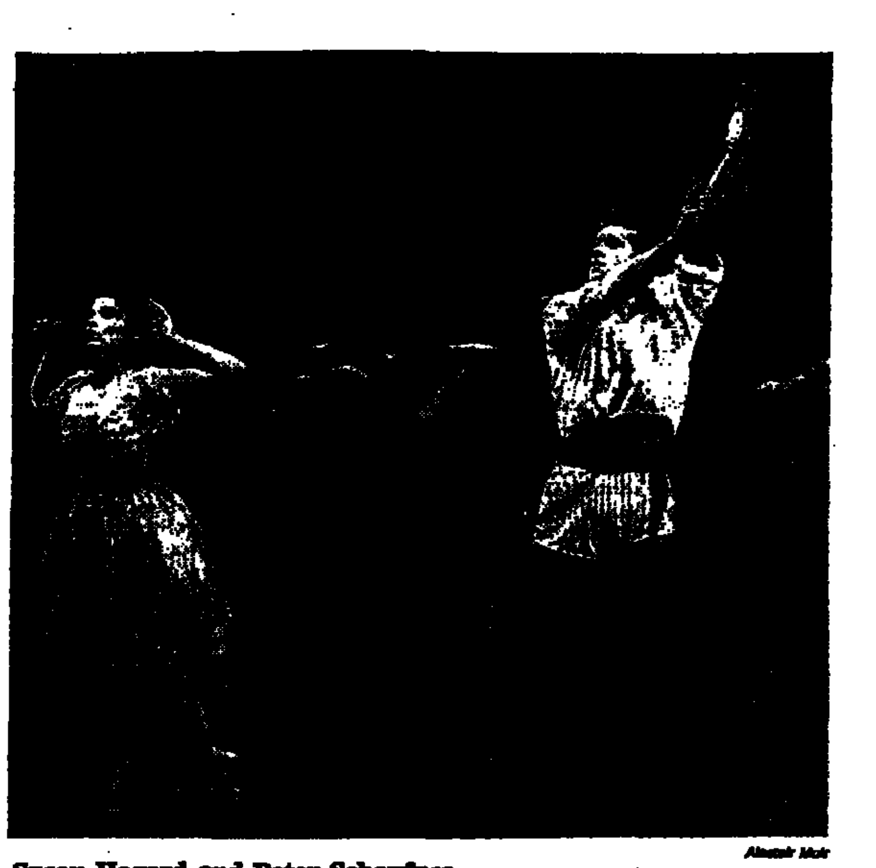
But *Napoli* is a flawed piece, its second act traditionally known in Copenhagen as the "Brommums" act, from the name of the restaurant close by the theatre to which aficionados went for sustenance while the naiad ballabile in the Blue Grotto went its uninspired way. It is in this act that Peter Schaufuss has made the most considerable changes to the accepted text. Elsewhere in his staging — first made for the National Ballet of Canada in 1981 in Toronto, whence I reported on it in these pages — he has been successful in recreating Bournonville's Italy for new surroundings and new audiences. Schaufuss has a tendency to expand, to inflate — where the Royal Danes have edited and intensified effects — as we also saw in his view of *La Sylphide*, but with David Walker's excellent and traditional designs, the outer acts of the ballet catch the bubbling life and undiminished physical joy of the tale in happy fashion. (Character vignettes on Monday were marvellously done by Niels Bjorn Larsen, Alexander Grant, Nicholas Johnson, Lynn Seymour).

But with the middle act, where Gennaro must win his Teresina from the enchantments of Golfo, lord of the sea, Schaufuss has sought to make more than the scene will stand. The traditional Copenhagen version is, I believe, corrupt, but it is direct in its effects, and whatever its longueurs the story is clear. Schaufuss, in remaking and extending the dances, has respected the moral foundations of the scene, but has metaphorically and actually clouded the narrative with dry ice, additional dances and a vaporous characterisations set in a dream sequence. It looks very dull, and merits re-thinking and editing.

Fortunately there is the *feu de joie* of the last scene to dispel any mists of boredom. Here ENB's artists were at their best — the male soloists notably fine — and the fizz of delight that we know from the dances, the flying feet and musket shots, touched every moment. Here, too, Susan Hogard as Teresina set out her dances with prettiness and affection, and Peter Schaufuss whipped through Gennaro's solos in buoyant style.

Napoli is an important acquisition for ENB (the production is, very properly, sponsored by the Banco di Napoli) and a welcome one. It will, I believe, be more welcome after pruning. "Gaiety," said Bournonville, "is true strength. Excess is weakness."

Clement Crisp



Alastair Muir

Susan Hogard and Peter Schaufuss

The City Wives' Confederacy

GREENWICH THEATRE

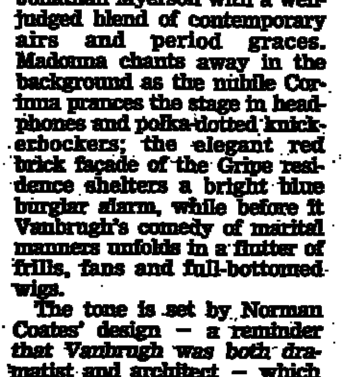
Greenwich Theatre, some months in the doldrums, shows signs of recovery with this spritely production, directed by Jonathan Myerson with a well-judged blend of contemporary airs and period graces. Madonna chants away in the background as the nubile Corinna prances the stage in headphones and polka-dotted knickerbockers; the elegant red brick façade of the Gripe residence shelters a bright blue burglar alarm, while before it Vanbrugh's comedy of marital manners unfolds in a flutter of frills, fans and full-bottomed wigs.

The tone is set by Norman Coates' design — a reminder *that Vanbrugh was both dramatist* and architect — which turns on a somewhat noisy revolve to provide a boudoir replete for the hatching of adulterous plots, and a set of upstairs windows through which the young generation conduct a whirlwind, and not wholly decorous, romance.

The play, premiered at Vanbrugh's own Queen's Theatre in 1705, is urbane but not anodyne in its portrayal of a society of wasters and wanters, in which the coinage of even the most romantic liaison is the money accruing thereby. Thus the languorous Clarissa (Emma Piper) and the spirited Araminta (Susan Kyd) court the attentions of each other's husbands on the strict understanding that they will keep a fair account of all receipts and dispersements, while the choleric Gripe (Bill Stewart) and the lustful Moneytrap (Philip Lowrie) allow themselves to fall prey to a shameless sexual extortion.

The limits of reciprocity stand well beyond Mrs Amlet, the raggle-taggle purveyor of pins and patches, whose demand for payment is not considered to amount to a debt of honour, but whose stockings-full of banknotes, revealed at the end, are more than enough to buy her conniving son into the polite society he has been attempting to infiltrate by apeing its affectations.

Julia Foster makes a splendid job of the irrepressible Mrs Amlet, whose canniness, in one show-stealing scene, extends to manacling her cart to her leg while she sleeps off her excesses with the result that she is up-ended, still snoring, by her son's vain attempt to make off with her wordly wealth. *Donna Croll turns* in a solid, if slightly prosaic performance as the resourceful maid-servant Flippanta, while Mark Williams once again proves his mastery of gormless guile as the blackmailing Brass. Arkie Whiteley's gum-chewing Corinna shares with Emma Piper's Clarissa a tendency to lose clarity in moments of excitement, which adds to a general sense of performances yet to reach their peak.



Alastair Muir

Julia Foster

Claire Armitstead

War Dance

NOTTINGHAM CASTLE

As part of the Nottingham Festival, Lumiere & Son have occupied the castle grounds with an entertaining, large-scale Edwardian triptych of impending disaster. The occasion, conceived and directed by Hilary Westlake, is like a flattened out *Heartbreak House*, choreography displacing dialogue, mobilised hordes the detail of individual misgiving.

There is a text, though, by David Gale, which you can overhear in the first section repeated among small huddles of actors as the audience mills around them. Expectation and puzzlement are shared. We have been summoned by the lord of the manor, but who knows why? In the first of the evening's great visual coups, the host (Trevor Stuart) appears above a distant horizon on a white horse. He bids us follow him through the grounds.

The middle section is a "Come Dancing" around the bandstand. The company hurls itself with vigour and rigour into the foxtrot, the waltz, the polka, the turkey-trot and the "huggy bear." Lanterns glow in the trees, and John Eacott's musical arrangements, decoratively harmonised by four singers, insert a hint of foreboding and dissonance into the familiar tunes. The breeze came up just as we launched into the "scandalous" cakewalk.

But the hour of need is at hand as we walk through the darkening glades, the city lights now twinkling in the distance. Climbing to the top of the castle mound, the sporadic, isolated green-uniformed soldier of the first section is more densely in evidence. Flames *burn, drums sound.*

Against a huge 18th century façade, the host rises in a fork-lift truck to urge unity and preservation of the heritage. The company dancing is now robotic, squeezed of joy, threatening. The music of Jeremy Peyton Jones is insistently minimalist. Smoke rises, the dancers fall, a phalanx of soldiers grimly strides into the theatre of war. A voice declares that ten million men died in the war that was supposed to end all wars.

This sort of community spectacular, redolent of the Russian post-Revolutionary proletariat shindigs, offers enjoyment without much content. As an exercise in shifting physical perspectives and scenic environmentalism, though, it is breathtaking. On Monday night, in balmy weather conditions, with a cup of wine and good company, the event took *on the aura of a jolly works* outing. Last performance tonight at 9pm.

Michael Coveney

Dmitry Alexeyev

QUEEN ELIZABETH HALL

Alexeyev can be a tempestuous, physically overbearing player, who thunders through pieces as if driven by a personal demon. When on form, as he was on Monday night, he seems to me the finest of the younger Russian pianists. In a programme of Schumann, Liszt, and Rakhmaninov, he combined superlative technique, a range of colours deep as well as brilliant in hue, a powerful infusion of emotional intensity, and a naked artistic seriousness, a quality of probity more easily sensed than analysed or demonstrated. *The combination* illuminated every piece he touched.

Even where and while one questioned, one admired. For my taste the Schumann of *Kreisleriana* was a composer who worked to a more "domestic" scale, called for a less fiercely impassioned kind of instrumental timbre and texture, than Alexeyev believes he did. This was a weighty, heavily charged account of the linked sequences (and indeed, they were more closely linked than usual, since the pianist made not the smallest pause between them). Where others tease and tickle the figuration, he attacked, with an athlete's aim. The octave-movements in the bass were filled with a *glinting vitality than verged on* menace; even the *vivace e scherzando* finale seemed to take on an unfamiliar impulsive edge.

This was, in short, not a charming *Kreisleriana*, but it was a notably vital and compelling one. Alexeyev had begun this Schumann first half with the *Arabeske* — another soulful reading ever ready to pause for reflection, with its minor-key episodes darkly tinted and its coda rich in nostalgic regret. This was (I think) another unfamiliar and perhaps even an unidiomatic "hearing" of the work; but it was achieved with masterly control, and was very beautiful.

It is the distinguishing feature of genuinely creative performing artists that they can make us re-think pieces of music we thought we knew quite well enough already. Another feature is the art of making compelling, through sheer virtuoso fire, pieces like Liszt's long, elaborate set of variations on Bach's "Weinen, Klagen" — pieces that can droop and turn mechanical when fingers less mettled and imagination less vigorous are brought to bear on them. The same can surely be said of the six Rakhmaninov *Moments musicaux*, Op. 16, with which Alexeyev closed the recital: magnificent, leonine delivery, sober and impassioned in the grand Russian manner, unflagging in concentration.

Max Loppert

ARTS GUIDE

June 9-15

THEATRE

London

The Merchant of Venice (Phoenix). Dustin Hoffman's Shylock a sympathetic, semaphore-gesturing alien in Peter Hall's fine Venetian Renaissance production, Geraldine James a superb Portia (836 2294).

Much Ado About Nothing (Strand). Alan Bates and Felicity Kendal lead strong ad hoc company in Chekhov's early, extravagant Ivanov. Not to be despised (836 2660).

As You Like It (Old Vic). Yet more non-RSC Shakespeare, with an outstanding Rosalind from Fiona Shaw in eclectic, enjoyable Tim Albery revival. Ambitious designs (928 7616, cc 261 1821).

The Black Prince (Aldwych). Ian McDiarmid gives the performance of a lifetime in Iris Murdoch's Hamlet novel. Witty black farce, vitriolic and entertaining (836 6404).

Ghetto (Olivier). Brilliant National Theatre version of Joshua Sobol's Israeli play about the last days of the Vilna ghetto and its resident theatre company. Moving and shocking. Nicholas Hytner directs, Bob Crowley designs, good music arranged by Jeremy Sams. June 14, 22-28, July 7-10 (928 2252).

Single Spies (Queen's). The highlight of Alan Bennett's double bill is a comic confrontation between Prunella Scales as Her Majesty the Queen and Bennett himself as Anthony Blunt in the royal picture gallery. Simon Callow plays Guy Burgess in a rehash of Bennett's fine TV film *An Englishman Abroad* (734 1166).

M. Butterfly (Shaftesbury). Anthony Hopkins as the tortured diplomatic hero in a Peter Shaffer-style "spectacle of ideas" dressed up in John Dexter's superb production as a metaphor of homosexual life. The transvestite tragedy proves less electrifying than in New York; the play is not very good but still worth seeing (379 5399).

Brigadoon (Victoria Palace). 1947 Lerner and Loewe "heather-scented" Scottish fairytale hit is handsomely revived and well sung, less frail than expected (834 1317, cc 828 2458).

The Vortex (Garrick). Maria Aitken and Rupert Everett in brilliant revival by Philip Prowse of Noel Coward's 1924 study of drug addiction and mother fixation. Mannered, glamorous, beautifully costumed. A must for yuppies (379 6107, cc 741 9999).

Henceforward (Vaudeville). Martin Jarvis and Joanna van Gyseghem in bleakly funny and experimental Alan Ayckbourn comedy of future shock and strained marriage. A tale of obsession, devotion, computer music, women as robots, gangs on the streets and a tug-of-love (836 9987, cc 741 9999).

Aspects of Love (Prince of Wales). Andrew Lloyd Webber's latest is an intimate chamber operetta derived from David Garnett's 1955 novella. Musically interesting and well directed by Trevor Nunn, a cast of unknowns project the right sense of sybaritic insouciance. A probable, but unspectacular, hit (839 5972).

New York

Heidi Chronicles (Plymouth). Wendy Wasserstein's award-winning drama covering 20 years in the life of a successful American baby boomer goes from support for Eugene McCarthy's presidential aspirations to electoral ambitions in the 1980s, accompanied by the musical and emotional flavour of the period (239 6200).

Lend Me a Tenor (Royale). A comic set of a decaying town's big time opera ambitions makes a transatlantic hit of this farce first produced in London, but now with a local cast led by Philip Bosco and Victor Garber (239 6200).

Shirley Valentine (Booth). Pauline Collins brings her West End triumph to Broadway in Willy Russell's funny and touching story of a Liverpool women's awakening in the Aegean Sea. Simon Callow again directs without smoothing any of the Northern English edges that retain an authentic touch.

Jerome Robbins' Broadway (Imperial). Anyone attracted by the notion of a three hours of film trailer previews will adore this compendium of Robbins' directed and choreographed plays of the past 40 years, including *On the Town*, *West Side Story* and *Gypsy*.

Rumors (Broadhurst). Neil Simon's latest comedy is a self-conscious farce, with numerous slamming doors and lots of mugging but hollow humour that misses as often as it hits. Christine Baranski leads an ebullient cast in the inevitable but disappointing hit.

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).

A Chorus Line (Shubert). The longest-running musical in the US has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than as emotions (239 6200).

Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and stage drama (239 6200).

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. It has proved to be a durable hit (947 0033).

M. Butterfly (Eugene O'Neill). The surprise Tony winner for 1988 is a somewhat pretentious and obvious meditation on the true story of the French diplomat whose long-time mistress was a male Chinese spy (246 0220).

Phantom of the Opera (Majestic). Stuffed with Maria Björnson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Chicago

A Funny Thing Happened on the Way to the Forum (Goodman). Stephen Sondheim's most popular musical, for which he wrote both music and lyrics, stars Louis DiCrescenzo as Pseudolus. Ends Aug 6.

Driving Miss Daisy (Briar Street). The touching relationship between a dowager, played in this production by Dorothy Loudon, and her black chauffeur exposes the changes in the South over the past several decades (348 4000).

Steel Magnolias (Royal George). Ann Francis and Marcia Rodd play the leads in this view of southern life from under the dryer in a busy hairdressing establishment (988 9000).

Tokyo

Kabuki (National Theatre). Kanadehon Chushingura. The most popular play in the kabuki repertoire, based on the true story of the 47 loyal samurai, is performed in two self-contained parts at 11am and 2.30pm (265 7411).

Shinbashi Enbujo Theatre. Two mixed programmes at 11am and 4.30pm, featuring mainly young kabuki actors, including Kikugoro and the world-famous Onnagata Tamasaburo. Both theatres provide informative English language programmes and the National Theatre has an earphone guide in English (341 2211).

Les Misérables (Imperial Theatre). Strongly-cast revival (in Japanese) of the stirring musical of the storming of the Paris barricades. (201 7777).

The Phantom of the Opera. Nissei Theatre (045 303 5701). This excellent production (in Japanese) is a carbon copy of the London original.

Blues in the Night. Theatre Apple, Shinjuku (387 5444). Musical revue from off-Broadway, featuring black music of the 1920s and 1930s. In English.

SALEROOM

China still in favour

The China crisis seems to be having a limited impact on demand for Chinese works of art. Christie's had a poor sale on Monday morning but that was mainly because the early Chinese bronzes and such like it was offering are out of favour anyway. Sotheby's had a good auction yesterday, bringing in £1,165,164 from the morning session with 16 per cent unsold. All the leading Hong Kong, Japanese and Taiwanese dealers were there and really events in China seemed to have no effect either way on the bidding.

The top price was the £187,000 paid by the London dealer Eskenazi for a Tang Dynasty silver gilt bowl, probably dating to the 8th century AD. It was an auction record for Chinese silver. A Taiwan dealer, My Humble House, bought three major lots, paying £181,500 for a Qianlong bronze zodiac horse's head, from the mid 18th century, which would have spouted water from an horological fountain in the old Summer Palace between eleven and one each day; £148,500 for an ox's head, which fulfilled the same role; and £137,500 for a tiger's head from the same set of twelve, all modelled on a design by Castiglione, a Jesuit artist at the Imperial Court.

In the afternoon session Hirano, a Japanese dealer, bought a large, rare, wine jar, of the 16th century, Jiajing period, decorated with carp swimming among lotus leaves, for £242,000.

Phillips achieved its highest total for a sale of modern British pictures, just topping £1m but with 30 per cent unsold. The Taylor Gallery, which specialises in Irish paintings, paid £88,000 for a portrait of Miss Anne Harmsworth by Sir William Orpen, and £26,400, a record for a Orpen watercolour, for "Propping up the bar", a typical Irish sketch. Waddington paid £66,000 for "Forgive him," a symbolic work by Jack Butler Yeats, while the same sum secured "Hay Boats, Brittany" by the Australian artist Rupert Bunny.

Antony Thorncroft

FINANCIAL TIMES

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Wednesday June 14 1989

Voting for Europe

CITIZENS of five European Community countries will be voting tomorrow, and those of the remaining seven on Sunday, for the third European Parliament to be elected by direct universal suffrage.

Only the Italians are conducting the election in a truly European spirit, having amended their law to allow Europeans from other countries to be candidates. This puts to shame those countries, such as Britain, which do not even give the vote either to resident foreigners or to their own nationals resident elsewhere in the EC. If Mr David Steel is elected it will also put Britain to shame in another way, by drawing attention to the fact that Britain is the only country not to be holding this election under one or other system of proportional representation, so that only through the solidarity of like-minded Italians can a significant minority of British opinion hope to achieve any representation at all – the size of the constituencies making it almost impossible for a party with, say, 20 per cent of the national vote to gain a majority in any one of them.

Low turnouts

Whatever the validity in a national context of the argument that PR produces shifting parliamentary majorities and therefore unstable government, it clearly has no relevance in this case. Britain alone cannot produce a majority for the European Parliament, and stability of government at Community level does not depend on the majority in that parliament. The main locus of power in the Community is still the national governments, whether acting as the Council of Ministers or, at summit level, as the European Council. The electorate correctly senses this, and does not treat European elections with the same seriousness as national elections. Rather, it treats them as mid-term elections: turn-out tends to be low, and the swing is usually against the party or parties in power at the national level, sometimes to the advantage of smaller parties.

It is thus not surprising that the campaign in all 12 countries has tended to focus on national politics rather than on Community issues. Three countries – Greece, Ireland and Luxembourg – have legitimised this by holding their national elections on the same day. In Britain, Community issues have figured more prominently in the campaign than one might have expected, but the main issue has been the performance of the national government in the Community, not the voting records or intentions of the candidates. People still do not believe that the actual composition of the European Parliament matters very much.

Significant powers

In that they are broadly right but not as right as they used to be. Since the passing of the Single European Act the parliament has acquired some quite significant powers and has used them to some effect. When it has the support of the Commission its amendments to Community legislation have the force of law, unless all 12 national governments vote together to strike them down. It also has the power to delay or veto association treaties with third countries, as well as the admission of any new members to the EC. It has to approve the Community budget, and has now gained some say over agricultural spending as well. In theory it has always had the power to dismiss the Commission. That power has never been used, but might be if the national governments tried too blatantly to appoint a Commission president who would side with them against the parliament.

Gradually the power of the parliament is increasing, and this is a healthy development. It introduces a much-needed element of democracy into legislative procedures otherwise dominated by bodies only very indirectly subject to popular choice. The political choice involved in the European elections is already quite important, but its importance is obscured by the lack of effective cross-frontier parties and by the technicality of much of the parliament's work, which the media, perhaps, do not do enough to penetrate and explain. One of the priorities of the new parliament should be to see that the issues it debates are more clearly presented to the public, so that in five years' time we all have a clearer idea of what we are voting about.

Taking TV to the market

THOSE WHO fear that greater competition in broadcasting will lead to lower standards and less real choice for viewers will not be greatly comforted by Mr Douglas Hurd's statement to the House of Commons yesterday. The Home Secretary has modified the proposed rules for auctioning commercial broadcasting licences. He also seems to accept that Channel Four cannot both meet the needs of minority groups and return a profit for shareholders. But his statement underlines the Government's determination to press ahead with the free market reforms announced in last November's white paper. British broadcasting thus faces a future in which "bottom line" considerations will increasingly dictate the contents of programmes.

Mr Hurd is sticking to his two-stage method for auctioning commercial broadcasting licences. In the first stage applicants will have to meet slightly strengthened requirements on programme quality. In the second stage, the Independent Television Commission (the proposed new regulatory body) will still have to accept the highest bidder – with the proviso that, in exceptional circumstances, a lower bid can be accepted. But the ITC would have to explain fully why the highest bid was not accepted and face a judicial review of its decision.

Little discretion

In practice, therefore, the ITC's power of discretion is likely to be small. In most instances the highest bidder will gain the franchise. The company will have been obliged to post a performance bond which theoretically gives the ITC a sanction to deploy if programme quality promises are reneged upon. But whether the regulator, in practice, will be able to maintain quality in the face of intense competition for audiences and advertising must be dubious. It is worth remembering that no country – not even the US – auctions television franchises to the highest bidder and that what is proposed for this sensitive medium is not yet practised in more prosaic parts of the economy: there has never been any question, for example, of auctioning airline routes to the highest bidder.

The long-term aim of breaking up the "comfortable duopoly" enjoyed by the BBC and ITV is to create a broadcasting market comparable to that which already exists in book, magazine and newspaper publishing. The hope is that consumers will eventually be able to choose from a very large number of channels – terrestrial, cable and satellite – paying for programmes as they view them. Such a regime would not be economically efficient in the strict sense because broadcasting is a public good: once a programme is made, the marginal cost of letting an extra person watch it is zero. But the diversity and direct exercise of consumer choice has a natural appeal.

Loss of quality

The risk is that the quality of broadcasting will deteriorate during the long transition from a paternalistic to competitive regime. This is highly likely if advertising becomes the dominant form of finance for television. It is disturbing, therefore, that the Government is pressing ahead with deregulation but making no effort to ensure that the commercial broadcasters rely even to a minimal extent on subscription income. The Peacock Committee, while committed to market forces, nevertheless emphasised the importance of achieving a balance between tax finance, advertising and subscription revenue.

The Government's commitment to the market is also depressingly one-sided in that it embraces only the economic aspects of choice and freedom: the new Broadcasting Standards Council represents an unwelcome form of additional censorship. At the same time, Mr Hurd has shown no interest in the idea of an Arts Council of the Air. If the Government wants a broadcasting market to flourish, it should be prepared to back artistic and cultural programmes more generously, wherever they are made.

Tony Walker looks at the way ahead for Iran as it struggles to consolidate after a decade of revolution

Iran's new leaders: Speaker Rafsanjani and President Khamenei

The Ayatollah's unstable legacy

Looking down from Tehran's wealthy northern suburbs to the city's teeming southern districts the view most days is obscured by murky haze. The scene could be a metaphor for the opaque manoeuvring in Iran's leadership as the contenders vie for power following the death of Ayatollah Khomeini.

Iranians are waiting for a sign of which way the political wind might blow. Ten years of revolution and eight years of war with Iraq, of terrible uncertainty and of crushing disappointment, have made people wary.

"I believe the whole situation is unpredictable," said a Tehran businessman over morning tea in his modern apartment. "We don't expect the transition to go smoothly. Even God doesn't know what will happen."

Tremendous, and perhaps unrealistic, expectations surround Ali Akbar Hashemi Rafsanjani, parliamentary Speaker and likely future President. He has moved swiftly to take charge alongside President Ali Khamenei who, at 49, is the surprise successor to Ayatollah Khomeini as Iran's spiritual leader.

Many people are hoping that Mr Rafsanjani, who is 54, can provide strong and rational leadership after the turmoil of the past 10 years. The optimists in Tehran, who are by no means the majority, believe the appointment of Ayatollah Khamenei and Mr Rafsanjani's early assertiveness augur well for the future.

They see in this the makings of an effective and pragmatic leadership team favouring an opening to the outside world, a judgment based partly on the two men's role in persuading Ayatollah Khomeini to agree to last year's Gulf War ceasefire. But there also appears agreement that Mr Khamenei and Mr Rafsanjani do not have much time to establish their authority.

"I hope Khamenei and Rafsanjani really control the situation and consolidate power, and start very soon to get rid of extremist mullahs," one Iranian observer said.

In spite of present conspicuous attempts to project an image of unity, the leadership has a history of being riven by disagreement over all manner of issues, from how much state control to exert over the economy to dealings with the West. Within the leadership there are also deep personal antipathies that threaten stability. It seems unlikely that these issues will be resolved without conflict.

These are not the safest of times for those who seek to fill the vacuum left by Ayatollah Khomeini's death. Reports abound of assassination attempts against Mr Rafsanjani early this year, one of which was said to have come close to success.

Security precautions taken before he met the western press last week indicated much nervousness about his well-being. Journalists were even deprived of their pens and notebooks. Tehran residents note with wry amusement the ruling clergy's recent preference for travel by helicopter. As car-travellers in the capital's heavy traffic jams they might be vulnerable to assassination attempts.

The most potentially troublesome opposition group – the Mujahideen-e Khalq, based in Iraq – may seek to capitalise on present uncertainties. The hundreds and perhaps thousands of executions which have taken place since the Gulf War ceasefire last July were widely seen as an attempt to weaken the Mujahideen as Iran prepared for the difficult transition that would follow the ailing Ayatollah Khomeini's death.

Long years of war, involving heavy reliance on volunteer fighters, has left Iran awash with guns and ammunition. This might present the authorities with a huge problem if the centuries-old tradition of tribal unrest were to flare up again. The restive Kurds in Iran's north-west would almost certainly take advantage of any hint of widespread disorder.

There are also powerful provincial religious leaders whose personal fiefs present a challenge to central authority. Ayatollah Hossein Ali Montazeri, who was deposed in March as the designated successor to Ayatollah Khomeini, is reported to be under house arrest in his home area of Najafabad, south of Tehran. But his supporters, some of whom were detained after serious rioting in early April, could well cause disruption.

Ayatollah Khomeini's almost god-like status in Iran discourages a rational assessment of his legacy but many Iranians exhibit contradictory emotions about his death. Undoubtedly there is great relief in Tehran that a great political obstacle has passed from the scene. "It was time for him to go," is an often repeated statement, one that comes not just from members of the wealthy middle class.

Equally, there appears a sense of relief at the failure of the Ayatollah's 42-year-old son, Ahmad Khomeini, to make use of his father's prestige either to succeed him as spiritual leader or to offer himself as a candidate for the presidency at elections due in August.

Since early this year Ahmad Khomeini, backed by the radicals, has made a determined play for power, using the row over Salman Rushdie and the novel The Satanic Verses to make life uncomfortable for relative moderates such as Mr Rafsanjani, who initially tried to play down the affair.

The redrafting of Iran's Islamic constitution to allow a lesser religious figure to assume spiritual authority was widely seen as an attempt by Ahmad and his supporters to prepare the ground for his succession. But the death of Ayatollah Khomeini before the new constitution was completed, and before the presidential elections, helped to frustrate these plans.

"Two or three weeks ago, things were very dicey," said an Iranian observer with links to the moderate camp. "If the Imam (Khomeini) had lived until the elections, the extremists could have got into power . . . For the last two or three months, everything has been very uncertain, and Rafsanjani was on very shaky ground."

Mr Rafsanjani has moved skilfully to claim Ayatollah Khomeini's legacy on behalf of the moderates. At last Friday's prayers at Tehran University, in front of a huge crowd, he linked Mr Khamenei firmly with Ayatollah Khomeini, chanting: "Obeying Khamenei is obeying Khomeini."

But formidable obstacles face the new leadership. The state of the economy is threatening to bring people on to the streets in protest over high prices, low wages and chronic shortages of many staple items such as sugar, cooking oil and rice. Although Tehran with its wide and well-kept tree-lined boulevards gives a superficial impression of well-being, anger and frustration over economic hardships are just below the surface.

If one of the aims of the revolution was to improve the lot of the poor and the oppressed, then – in this respect at least – it has failed lamentably. Most people are worse off than they were under the Shah. Inflation is estimated to be running at more than 100 per cent, corruption is rife in state institutions, a black market "mafia" with links to powerful mullahs controls the distribution of many commodities. The value of the currency has collapsed; the rial reached its lowest point so far against the dollar on the day after Khomeini's death.

Industry is almost at a standstill, the construction sector is barely moving, there is a critical housing shortage, and there are insufficient schools to cope with the population explosion. Iran has 53m people, with an average age of 17. Its population growth rate, approaching 4 per cent, is one of the world's highest. Vital medical supplies are scarce; hospitals have run out of some drugs and surgical instruments. Overseas investors show almost no interest in investing in Iran while uncertainties persist.

Much will depend on whether Mr Rafsanjani is able to overcome opposition to a gradual opening to the West. He will have to push through a programme of economic liberalisation that would allow private businessmen more freedom. Iran's present commercial environment is highly restrictive and dominated by state institutions.

He will also have to establish a climate of order that would encourage the return of entrepreneurs from among the tens of thousands of Iranians who have fled the country since the revolution. The remnants of a wealthy middle class, who have remained behind in their large villas in the hills behind Tehran, live in frustrated semi-retirement.

Mr Rafsanjani has said that one of his first priorities is to give the country an economic boost. Businessmen are sceptical, however, about any early improvement. A much-heralded decade of post-war reconstruction has made a weak start in a nation consumed by politics. This is likely to continue until after the presidential elections and, even then, given the limited resources available, progress will be slow.

Ali, a 17-year-old student, who ekes out an existence selling contraband cigarettes on the street in the Shahpur district of south Tehran shrugged resignedly when asked about the outlook. "Everyone knows the future," he said. "It's going to explode." He was sceptical about Mr Rafsanjani's ability to take control.

At a nearby café, the proprietor made no secret of his disenchantment. He echoed widespread criticism of the Revolutionary Guards, the shock troops of the Khomeini revolution. "The police before the revolution had to go by the regulations," he said. "These people can take you away if they feel like it. They can close your shop. They don't have to obey any law . . . They've had to bully to stay in power."

A middle class couple in north Tehran were still shaken after their experiences the night before I interviewed them. A detachment of Revolutionary Guards had raided their apartment after they had entertained friends and family. They were accused of gambling and the husband was taken away for questioning. "It's very insulting, it's very shocking. It's an invasion of privacy," said the wealthy Iranian woman.

Proposals, backed by Mr Rafsanjani, to neutralise the Revolutionary Guards by amalgamating them with the regular army under a new Ministry of National Defence have encountered strong resistance. Apart from opposition from the guards themselves, the army is also reported to be unenthusiastic.

It is not yet clear what role the army might play in the post-Khomeini era. It retains a reputation for professionalism in spite of the difficulties and suspicion under which it has operated for most of the revolutionary period. It would be surprising if it was not touched by Iran's ideological currents, but hitherto it has not played a conspicuous political role.

If Mr Rafsanjani is to assert full control, however, he would seem to have little choice but to rein in or disperse the 250,000-300,000 Revolutionary Guards, many of them battle-hardened and fiercely ideological young men. At the Harriri mosque in one of the poorest districts of south Tehran, Javad, a 27-year-old guard, dismissed criticism of their behaviour as coming from "people whose own interests are in danger." He made clear that elements within the movement would fight any attempts to undo Ayatollah Khomeini's legacy.

"Supposing there is an attitude, regardless of who the person is, of making up with the United States, then there will be an encounter," he said. The statement amounts to a thinly veiled threat against Mr Rafsanjani who was one of the architects of Iran's abortive opening to the West last year, and who gives every indication of wanting to restart the process interrupted by the row over The Satanic Verses.

Javad insisted that, as the custodians of the revolution, the Revolutionary Guards would not yield on important principles such as fierce opposition to the US. "America," he said, "has done things that make it impossible for us to have relations with it."

He left no doubt that elements of the guards would fight to preserve their role, and he quoted Ayatollah Khomeini as saying that "if no Revolutionary Guards existed, the nation would not exist."

These are ominous statements for a leadership struggling to guide Iran out of a period of prolonged storms and into calmer waters.

Notes from Ireland

■ Election Day in Ireland tomorrow and, if Dublin punters are anything to go by, it's not looking too good for Charles Haughey, the Prime Minister. Haughey called the election to try to secure a majority for his Fianna Fail party. Paddy Powers, Dublin's election bookmakers, yesterday gave 2-5 odds against Fianna Fail pulling it off.

Haughey is in trouble over "The Rod War". The Government insists that anglers pay for a new fishing licence. The fishermen refuse, saying their ancestors fought the British colonialists for the right to free fishing. The dispute has been going on for 18 months and has ruined two fishing seasons and cost many millions in tourist revenues. The Roman Catholic church has tried to intervene to settle the dispute, but to no avail. Haughey says he's baffled by it all. So are the tourists. Those who go fishing without a licence risk having their rods and catch confiscated by bailiffs. If they buy a licence, they risk having their boats damaged or tyres slashed by anti-licence campaigners.

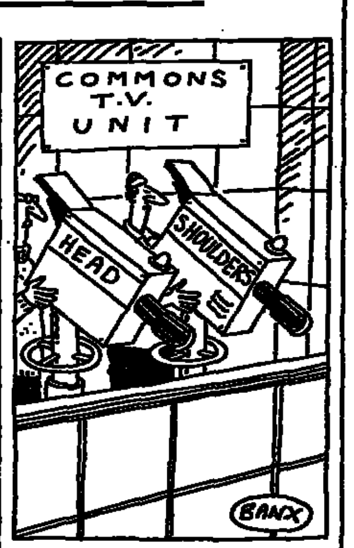
Haughey has not been the most available of leaders during his two years in office: his minders have made sure that he has had less contact with the foreign press than (say) Kim Il Sung.

A meeting in Louisburgh in County Mayo was supposed to start at 9.30 pm. It did not get underway till well after the bars closed at 11. The rain was lashing down. "We are the envy of Europe," shouted the Fianna Fail man from under his umbrella. "Charlie Haughey is the equal of Gorbachev...or anything in Japan." The slightly mystified crowd clapped politely.

Attendance at funerals remains important, especially in rural areas. Voters notice such things. One senior member of the present Government made sure his presence was noted at almost every funeral in his constituency. On a day when there were two funerals to attend he went to one and sent his state car to the other.

The Irish Electricity Board has placed ads in national newspapers warning against the placing of election posters on electricity poles. "This practice is extremely hazardous because of the risk of electric shock or severe burns and in the past has resulted in serious injuries."

OBSERVER



Abbey price

■ Abbey National has distributed huge batches of window stickers to its branches around the country ahead of the declaration of its issue share price. They come in two sets. The first, which should remain in place until June 15, contains a large question mark against "p" for pence. The second contains a series of numbers. It can be stated with absolute certainty that the price will not be less than 120p and not more than 160p and that the final digit will be either a zero or a five.

Scholey stays

■ Sir David Scholey, the chairman of S G Warburg, was looking more than usually comfortable yesterday after producing profit figures which confounded the City's gloomy expectations. "I don't like using the word, but they were satisfactory," he said.

Five years have passed since Scholey inherited the mantle from Sir Siegmund Warburg, and few would dispute the view that he has done a first class job in building Warburg into one of the UK's most successful investment banks. Which raises the question of how much longer he will stay. Coming up to his 54th birthday in a fortnight, he has time for another career phase. But there is little sense of imminent change at Warburg: even if there was, Scholey is not the sort of man who would encourage it.

People at Warburg expect him to see through the international expansion on which he has embarked, and which will determine whether Warburg can claim its place among the world's top investment banks. By then the Governorship of the Bank of England, for which he has so frequently been mentioned and on whose Court he sits, might be available.

Media law

■ University College, London is to establish the first British Chair of Media Law – very much a coming subject. It means dealing with all those areas of defamation, privacy, the right of reply and regulation where the Government, MPs and the courts are getting into such a tangle.

The Chair will be in the name of Lord Goodman, perhaps best remembered as one of the most prominent members of the great and the good under Prime Minister Wilson. Goodman, now 75, was both a student and teacher at UCL. Although the initial funds have already been raised from private and institutional sources, the College is still looking for more.

The post will be advertised shortly in the hope that the Chair will be occupied by January. According to Professor Jeffrey Jowell, head of the Faculty of Laws, it is an open question whether it will go to a lawyer, an academic or a journalist: "Maybe," he says, "just to someone who would be good at it."

Choosing a suitable candidate may not be easy. The Home Office is still having difficulties in finding a chairman for the independent review of media law that it promised to set up some weeks ago. Everyone agrees that the subject is important; no-one agrees on who should get the job.

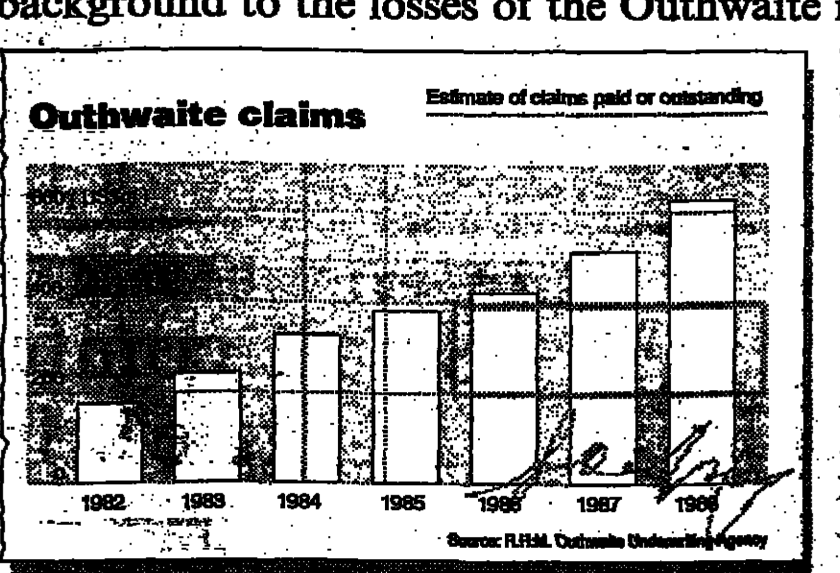
From afar

■ There seems to be more interest in televising the House of Commons across the Atlantic than at home. Unlike British broadcasters, C-Span, the US public affairs channel, provided live (sound) coverage on Monday of the three hour Commons debate which gave the go ahead for an experiment starting in November. Although C-Span, which specialises in gavel-to-gavel exchanges in Congress, would never advocate the timid rules of only head-and-shoulders shots required by British MPs, it plans to air portions of Parliament's proceedings when the experiment starts. Americans will then discover that there are other British politicians apart from Mrs Thatcher.

Charity

■ Sign outside a small country church in Ohio: "Trespassers Will Be Forgiven."

Nick Bunker on the background to the losses of the Outhwaite insurance syndicate



The sting in Lloyd's tail

It began in 1981, amid the hubbub of commerce on the floor of the Lloyd's underwriting Room.

Mr Richard Outhwaite, a Yorkshireman then in his mid-40s, was selling insurance policies called run-offs. He was offering to take over the troubling exposure of other Lloyd's syndicates and insurance companies to huge claims arising from asbestos-related diseases in the US under policies issued as far back as the 1940s.

Reared at Lloyd's in the 1950s and 1960s, Mr Outhwaite had carved out a reputation as an expert insurer of ships and oil rigs. This time he was taking another type of calculated bet. As he told an independent inquiry into the affair, it "seemed to be a good risk at the time."

Eight years on, those risks look horribly bad. Last week, the 1,612 people who belonged in 1982 to the Outhwaite syndicate, number 317, received demands for £64m to shore up the syndicate's reserves against claims expected to total at least £304m. On average, each person is being asked for £39,000. For some of them, at least, the demand poses a considerable financial problem. For Lloyd's as a whole, the affair has also become a headache, as Mr Outhwaite and 16 other syndicates and insurance companies have wrangled over the extent of 317's liability. He is still in dispute or arbitration with nine of the 16, over his argument that they failed to disclose the right information when he wrote the policies, or over the scale of their claims.

Does any of this matter to outsiders, and does it threaten the Lloyd's system? Some at Lloyd's, whose ruling Council voted last week not to back a scheme for the community as a whole to help bear the losses, think not. "Outhwaite understood what he was doing," says Mr David Coleridge, deputy chairman of Lloyd's. "If we helped him, we'd have to help every other underwriter."

But for outsiders, the striking thing is the size of the losses. Quite apart from the financial pain they represent, they bring into wide public view the scale of the "long tail" of liability Lloyd's is carrying for remedying 40 years of post-war industrial disease and pollution in the US. As Mr Robert Kiln, the *éminence grise* of Lloyd's reinsurance underwriters, wrote in 1984, this makes it "almost impossible on any adequate basis" for insurers to set adequate reserves.

The "long tail" is not peculiar to Lloyd's. "All our competitors have been pushing money into reserves," says Mr Coleridge. The regular reports filed by US insurers with the Securities and Exchange Commission show a history of inadequate reserves. Only this spring, the UK's Royal Insurance set aside $16m to cover future pollution-related US claims, even after putting an extra $200m into reserves in 1988. The trouble at Lloyd's is that the losses fall on individuals with unlimited personal liability, and that so many are concentrated on just one syndicate. The wider issue is the difficulty of coping with very long-term liabilities in an institution where members are supposed to be free to come and go each year.

If the Outhwaite affair has an origin, it could well be a landmark US court ruling in 1975, when federal appellate judges in New Orleans decided in favour of a Louisiana ship-yard worker, Clarence Borel. He had sued an asbestos insulation manufacturer, Fibreboard, to compensate him for asbestosis. The ruling widened the range of situations in which asbestos companies could be liable, and triggered "the greatest avalanche of toxic tort litigation in the history of American jurisprudence," according to one US writer. By the early 1980s it was clear that very large insurance claims would be coming to London.

So Mr Outhwaite and, to a lesser extent his rival Mr Stephen Merrett, began making a market in "run-offs".

'Outhwaite understood what he was doing. If we helped him, we'd have to help every other underwriter'

They would take over other syndicates' liabilities for old business. In theory, they could buy an elaborate reinsurance programme, meet the claims as they "ran off" over perhaps 20 years, and still glean a healthy profit. The icing on the cake would come from the investment income earned from the premiums.

At the heart of the Outhwaite problem lie 31 such policies, sold between July 1981 and March 1982. Since late 1984, Mr Outhwaite's estimates of the resulting claims have mounted enormously, far outstripping his reinsurance protection.

Take non-marine syndicate 90. In its time a blue-chip syndicate, bearing the name of Sir Eustace Pulbrook, chairman of Lloyd's in the 1940s, it had a particularly long US tail. It paid Mr Outhwaite $2.2m in 1981, for a run-off to pay out when its pre-1974 claims bill topped $27m. At the time, syndicate 90 was expected to produce $17.6m of such claims. By January 1988, that estimate had swollen to $109m. Syndicate 90 was heavily exposed to another problem besides asbestos, namely a flood of lawsuits from US chemical companies for the cost of reclaiming old hazardous waste dump sites.

Yet nothing is quite what it seems in casualty insurance. As the graph shows, estimates of expected claims under the 11 largest Outhwaite run-offs have reached $634m. To a large extent, though, these figures are mere notional approximations. Of the £304m expected Outhwaite losses, £94m are "incurred but not reported" — claims which have not actually arrived, but can be expected on past statistical evidence.

Why are the Outhwaite figures so large, yet so provisional? Two reasons are the physical scale of asbestos and environmental risks, and the shifting US legal climate.

The Insurance Information Institute in New York reckons that in January 1989 60,000 bodily injury claims were pending against 21 asbestos manufacturers, with new claims arriving at a rate of 1,200-1,500 a month. The statistics are more dramatic still regarding toxic waste dump-sites. Two months ago, the US Environmental Protection Agency added another 101 sites to its list of those scheduled for urgent compulsory clean-ups, bringing the total to 1,163. The insurance industry fears it might foot much of the bill.

Legal developments have also undermined Mr Outhwaite. Just as he was writing run-offs, in March 1982 the US Supreme Court refused to review a federal appeal court ruling in the Keene Corporation case, which widened greatly the scope of insurers' liability for asbestos-related claims. And since March 1985, a California Superior Court judge, Ira Brown, has handed down judgments in a huge asbestos coverage case, further expanding the Keene ruling.

On toxic waste, insurers have fared better. Lloyd's underwriters cite two recent cases — Rocky Mountain Arsenal and Diamond Shamrock — in which they escaped liability for cleaning up a contaminated pesticide plant, and the area in New Jersey where the Vietnam War's Agent Orange defoliant was made. Even over hazardous waste, though, courts are unpredictable. In April, in the Aerojet General case, California Appellate Court ruled that 55 insurance companies and Lloyd's syndicates had to pay for cleaning up an old rocket fuel site, under policies sold since 1956.

There is one further uncertainty, which may work in Mr Outhwaite's favour. In February this year, during arbitration of Mr Outhwaite's dispute with one of the syndicates, Lord Wilberforce delivered a judgment apparently limiting the Outhwaite syndicate's liability. Some observers say it meant that the run-off policyholders could not claim for any money they had paid in *ex gratia* settlements to US insureds. Lloyd's has asked eight independent outsiders on its council to play what Lloyd's chief executive Mr Alan Lord calls an "elder statesman" role in negotiations to resolve Mr Outhwaite's disputes. Lloyd's seemed late last week to be hoping that during these talks the Wilberforce judgment could help reduce the Outhwaite claims burden.

In prospect now, though, are five weeks of suspense as Lloyd's waits to see if the 1,612 Names rebel against the cash call, refuse to pay, and begin sueing the 102 underwriting agents who put them on the syndicate. If the money is paid, the problem will have been staved off for another 12 months: another year in which to see if further surprises from the US drive the Outhwaite losses still higher.

For Mr Outhwaite, now aged 54, those nine months in 1981-82 when he was selling the run-offs are doubtless a period he would like to forget. He is still to be seen at work underwriting every day, either in his box in the Room, or in his office over Leadenhall Market. His syndicate, now with more than 3,000 Names, still insures 50,000 risks each year. Ironically enough, apart from 1982, it is one of the biggest and most profitable in Lloyd's.

Hong Kong

Full UK citizenship is not the answer

By Timothy Raison

Even before the terrible recent events in China there was a growing campaign in Hong Kong to change the British Nationality Act so that it would allow the more than 3m Chinese with some form of British nationality to become full British citizens. The argument was that such a change would encourage highly skilled employees to remain in Hong Kong, confident in the knowledge that there was no need to find ways of escape. If crisis came, they could simply come to Britain.

Inevitably the terror in Peking has escalated the demand for full citizenship, and it has found influential support in Britain among a number of politicians, newspapers and businessmen. Some of them have recognised the political difficulty of giving unrestricted right of entry to so many people by arguing that admission should be rationed through a quota scheme — in one instance of 30,000 a year. So far the Government's response has been to rule out an unrestricted right of entry but to talk of the possibility of greater flexibility in the operation of the nationality and immigration laws.

Would the British public accept the possibility of over 3m people having right of entry?

What is the right approach to this difficult situation? It is worth going back to the aims of the 1981 British Nationality Act. It was designed to produce a clear-cut citizenship status by splitting the old Citizenship of the United Kingdom and Colonies two ways — a British Citizenship for those people who clearly "belonged" to Britain itself and a separate British Dependent Territories Citizenship (BDTC) for the people of the remaining colonies. The latter conferred a right of abode in the relevant colony, but not in Britain. The assumption was that as and when a dependent territory ceased to be one, its citizens would acquire citizenship in line with the new status — in the case of Hong Kong, Chinese citizenship. Obviously Hong Kong loomed large in the thinking behind the Act.

Citizenship was the essence of the scheme, but the vague concept of nationality and passports produced complications. In response to pressure, the Government agreed that both citizenship categories should have passports with the words British Passport on the cover (even though the position about abode was made clear inside).

The British Government also came up with a variant on the BDTC status in the form of British Nationals (Overseas). This would enable former Hong Kong BDTCs to hold a form of British passport after 1997 for travel outside Hong Kong and China, but again it conferred no right of entry or abode in the UK.

The result is that you can hold a British passport without being a British citizen. Should Britain now abandon this to meet the Hong Kong situation? The wise, if tough, answer must be no.

For a start, there are provisions in existence which are relevant. A certain number of Hong Kong people can come to Britain under existing immigration laws — and if the very worst came to pass Hong Kong Chinese might come in as refugees, presumably as part of an international exercise. There is also the nationality provision by which crown servants in sensitive positions may be granted British citizenship.

This clearly does not satisfy Hong Kong opinion. But we have to ask ourselves whether it is conceivable that the British public would accept the possibility of over 3m people having right of entry. Would widespread sympathy provoked by a crisis really translate itself into long-term support for a potential wave of immigration? Or would we be faced with the worst of all outcomes, that a generous initial step would subsequently be followed by a shameful backtracking, as we saw with the problem of the East African Asians and the 1968 Commonwealth Immigrants Act? It could be disastrous to make concessions that could prove unsustainable.

But what about the quota option? Obviously it would depend on whether the quota was brought into play immediately or when the situation was seen to deteriorate; but in either case the institutionalisation of an exodus from Hong Kong could not be good for confidence. It would also contradict the argument that Hong Kong BDTCs should be given full British citizenship as an inducement to stay on there. And the task of drawing up and administering the quota would be formidable.

If, then, there is little that the British Government can or should do to help allay fears in Hong Kong by nationality or immigration changes, what else remains? The crucial point must be that 1997 is still some way off and there is no desperate need for haste. The massacre is so recent and appalling that it dominates everything, reinforced as it is by all the other signs of repression.

We have to work on the assumption that Hong Kong will go back to China and that it is in everyone's interests, if at all possible, for it to do so as a going concern — and preferably a more democratic one. We should also support Hong Kong over the influx of Vietnamese.

The result is that you can hold a British passport without being a British citizen

What are the chances that China will in due course go back to the path towards democracy and tolerance? Nobody knows. The signs are that a painful period lies ahead. But to think that the problem of Hong Kong can be largely resolved by giving British citizenship to 3m Chinese, however enterprising many of them are, is naïve to the point of deception. British citizenship cannot be a vehicle for solving the problems of the end of the Empire.

The author is a Conservative MP for Aylesbury.

LETTERS

Getting around London

From Mr John Wakeham.

Sir, Peter Bottomley, the Minister for Roads and Transport (Letters, June 12), is very quick to accuse me and others of telling only part of the story about the road schemes the Government is proposing for London. Yet his own version is so partial — it conceals more than it conveys.

While the London assessment studies do provide options for each area, they are all dominated by road proposals. In the East London study, for example, two thirds of the options involve significant road construction. In West London, six out of 10 of the options involve road proposals.

The Minister has ignored the borough options for cheaper fares on public transport on the grounds that cheap fares are against Government policy. British Rail and London Regional Transport have also made it clear that they do not think many of the public transport options are realistic, and therefore will not support them.

The same problem of bias occurs in the analysis of the assessment studies. The Government is adamant that, while all the rail schemes have to make a cash profit, the road schemes do not. It must also be said that the objectives the boroughs agreed with the Department of Transport (to which Mr Bottomley's letter refers) are [illegible]

Finally, it is disingenuous of Mr Bottomley to claim that he has not made a decision on whether to spend £3.5bn on roads in London. If he is not prepared to spend this amount, the £4m being spent on the various road options is a total waste of taxpayers' money.

Is it so surprising that London boroughs of all political persuasions have expressed their objections to the London assessment studies, and called for them to be abandoned or at least modified so much as to make them unrecognisable?

John Wakeham,
Chair, Planning and Transport Committee,
Association of London Authorities,
36 Old Queen Street, SW1

'The European Court is our natural ally'

From the Baroness Elles.

Sir, A.H. Hermann's view (May 17) is that the European Court of Justice is a "political" court, bent on making "new law," and with an inherent "integrationist" tendency: he quotes Lord Donaldson to the effect that the court makes "new law by the application of principle to specific situations."

This ignores the framework within which the court works. The treaties and the single European act (to both of which the UK Parliament at Westminster subscribed by large majorities) provide a "constitution" for the EC — the "common understanding of the overall aims" — which the court is obliged to respect, to interpret, and to apply.

Thus much European Court of Justice work is routine interpretation and appeals against the Commission, and the framework [illegible] upon the basis of the treaties has almost always been to the advantage of those seeking to prise open markets and promote competition and pave the way for a single market.

Mr Hermann's [illegible] on intellectual property, competition law, and in defence of state aids, shows a [illegible] sympathy for this aim of creating a single market; he [illegible] to the idea of the EC as merely a customs-free area. But in the treaties and the single European act we agreed to create a genuine single market — and to go further.

The European Court should not be blamed for reminding member states of the responsibilities they undertook in adopting the treaties. Transport policy was ignored by successive Councils of Ministers for nigh on 30 years, until the European Parliament successfully brought a case for "failure to act" — but one example among many.

As a matter of pragmatic fact rather than legal theology, we should see in the European Court a natural ally, for its rulings usually favour a liberal, free-market approach. The "Cassis de Dijon" decision, for example, pushed the EC towards the free movement of goods in an eminently sensible, non-regulatory way.

No one would deny Mr Hermann the right to his views on the creation of a single market and the EC generally. But these views have their place in an election campaign, not in attacking an institution for doing its job. That job includes reminding member states of the treaty obligations they have all accepted.

Diana Elles,
Chairman, European Parliament Legal Affairs Committee

Europe's new dispossessed

From Mrs Allison Fritsche.

Sir, I am a British subject; I have no right to vote in British parliamentary elections.

I am resident in a European Community host country as a direct result of Britain entering the EC; I have no right to vote in this host country.

I am an ardent European of long standing; I have no right to vote in the European Parliament elections.

I am one of Europe's new dispossessed.

Numerous Europeans — at least of British nationality — are deprived of one of their most basic rights: the right to vote. This is not only in national elections (for which there might be some basis for argument), but in elections for a parliament concerned with a Europe which allegedly has had common aims for many years, and now looks ahead to further unification in 1992.

When I asked how I could implement my vote in the European election, I was advised to change my nationality — from that of citizenship of one Community country to citizenship of another. I read your articles on the EC single market with great interest, but have never seen this aspect mentioned.

Perhaps it is only of interest to those affected. I fear this is mainly those British who, after living abroad for over seven years, no longer have a postal vote abroad.

Yours, in a very Pankhurst mood,
Allison Fritsche,
Scheidtweilerstr. 81,
5000 Cologne 41,
Federal Republic of Germany

Strategy for standards

From Mr G.R.C. McDowell.

Sir, Statements contained in the US House of Representatives foreign affairs committee report ("US and EC to start talks on easing path to 1992", June 1), illustrate the important role standards will play in the run-up to 1992.

To balance the apparently pessimistic US view expressed in the report, three points should be kept in mind, particularly about the electrical and electronics industries.

- Most electrotechnical standards applied in European countries are already based on international standards written by the International Electrotechnical Commission (IEC).
- The IEC is a world organisation, and its standards are formulated by experts from all its member countries. Non-European countries such as the US are therefore already in a position to participate directly in European harmonisation through the international forum provided by the IEC.
- In keeping with the "principles of openness and transparency" to which Mr Robert Mosbacher, the US Commerce Secretary, refers, the IEC has an agreement with CENELEC, under the terms of which information on European standardisation and harmonisation activities is transmitted to non-European countries via the IEC headquarters in Geneva. A similar agreement exists between the International Standardisation Organisation (ISO) and its European counterpart CEN.

The European Commission has already made a commitment to the Gatt whereby international standards, where they exist, will be applied directly as new European standards. The challenge to the international standards system of the IEC and ISO is to make sure that the standards are ready when they are needed.

Today's industry, much of which is multinational, already sees international standardisation as part of a global strategy. That is why so many of the experts from around the world, who contribute to international standards work through technical meetings, are industry-based.

G.R.C. McDowell,
International Electrotechnical Commission,
3 rue de Varembé, P.O Box 131,
1211 Geneva 20, Switzerland.

FINANCIAL TIMES
Wednesday June 14 1989

Soviet gas pipeline disaster 'could happen again'

By Quentin Peel in Moscow

ANOTHER massive gas explosion, like the one which destroyed two trains on the trans-Siberian railway on June 4 with substantial loss of life, could happen at any time on the Soviet Union's vast network of oil and gas pipelines, according to a Soviet expert.

Professor Pyotr Borodavkin, a leading member of the government commission of inquiry into the country's worst published rail disaster, said yesterday that quality standards had been virtually ignored in the 1970s crash programme to expand the network.

Even today, he said, no diagnostic system existed to check for leaks or corrosion in the system, which distributes oil and gas from the remote fields of north and western Siberia to cities west of the Urals – and onward to western Europe.

"The accident at Bashkiria did not come as a surprise for the specialists," said Professor Borodavkina. "The only thing unusual about this catastrophe was that two passenger trains were involved."

The death toll from the disaster is put at over 400 and many more are feared likely to die among the 619 in hospital.

Professor Borodavkin, head of the department of construction design for the oil and gas industry at the Gubkin Institute in Moscow, cited a string of accidents dating back to 1966.

"Many of the pipelines which were feverishly laid down in the 1970s are, to be quite honest, in bad shape," he told the government newspaper, Izvestia. "But accidents on gas pipelines are fraught with catastrophic consequences."

His damning criticism echoes the words of Mr Mikhail Gorbachev, the Soviet leader, who blamed "negligence and irresponsibility."

The professor said the Oil and Gas Institute in Moscow had developed a system for diagnosing faults in pipelines "without any great expense." The system was approved in principle by the Gas Industry Ministry, but it had never been put into practice.

"In other words, in spite of the urgent need, and despite the experience of other countries, our pipelines are practically left without observation while they are functioning."

Papering over the exchange rate difference

Peter Norman and **Simon Holberton** *on the row between Downing Street neighbours*

MR NIGEL LAWSON, Britain's Chancellor of the Exchequer, this week set a time bomb ticking under his already volatile relationship with Mrs Margaret Thatcher, the Prime Minister.

In evidence before the House of Commons Treasury and Civil Service Committee he spelt out in greater detail than ever before his concept for Britain becoming a full member of the European Monetary System.

If he is still living next door to Mrs Thatcher in a year's time it is almost certain that the frequently acrimonious row over the exchange rate that has dogged their relationship since 1986 will resurface.

For the moment, however, despite all the talk of rifts between numbers 10 and 11 Downing Street, the traditional London residences respectively of the Prime Minister and her Chancellor, the two ministers are probably more at one on economic policy than they have been for many months.

Combatting inflation is their priority. They both believe interest rates must be fixed at whatever level is necessary to control prices. Exchange rate stability has been pushed into the background. Both are even on record agreeing that now is not the right time for Britain to join the EMS's exchange rate mechanism.

But the present show of unity has, so far, failed to allay nervousness in London's financial markets and conviction in the media that major differences exist between the two. At a time when Britain's economy is looking more fragile than at any time since the deep recession of the early 1980s, the knowledge that fundamental differences exist between the two politicians whose job it is to safeguard the economic welfare of the nation is having a powerful, corrosive effect on confidence.

It is a testament to the pride and stubbornness of both the Prime Minister and her Chancellor that neither has bothered to hide their underlying differences about exchange rate policy in recent weeks.

Fighting inflation is the priority for Chancellor Lawson (left) and Prime Minister Thatcher

On Monday Mr Lawson told the Commons committee that he supported Britain's entry into the EMS's exchange rate mechanism – a currency grid which allows only small fluctuations in exchange rates between members – and suggested that not too long after July 1990 might be an appropriate time to join. This is the closest any senior Government minister has gone to defining "when the time is ripe" – the anodyne form of words used since the creation of the EMS a decade ago to define Britain's intentions with regard to joining the ERM.

Mr Lawson listed the key benefits of full membership – exchange rate stability, lower interest rates and better control over inflation. He took on critics, such as Sir Alan Walters, the Prime Minister's personal economic adviser, who argue that the system is inherently unstable. The Chancellor predicted that the EMS would survive the abolition of exchange controls in the European Community, due in July next year when Italy and France remove all remaining controls. In so doing, Mr Lawson answered the main objections to Britain's full membership made by the Prime Minister and her adviser.

A month ago, Mrs Thatcher in a now notorious interview with the BBC radio's World Service blamed Britain's present high inflation rate on the Chancellor's policy early last year of trying to hold the pound level with the D-Mark. She said of Britain's attempt to act as if in the exchange rate mechanism that the "experience of artificially holding to an exchange rate has been such that it really makes it quite clear that you must take your own steps."

These comments were a reminder of the very deep division that existed between the two a year ago when relations were so strained that they barely talked to each other for weeks on end. In March last year, when Mrs Thatcher insisted that the pound should be allowed to rise above DM3, the immediate cause was her anger at what she saw as the Chancellor's attempt to take Britain into the EMS through the back door by his policy of shadowing the D-Mark.

Her violent reaction was a reflection of her visceral aversion towards the fixing of exchange rates. At the gut political level Mrs Thatcher does not want to take orders from foreigners. Historically she has vivid memories of the humiliating attempt in 1972 to put the pound into the so-called European currency snake – the precursor to the EMS – when massive speculation against sterling forced Britain to quit just weeks after joining.

In turning on the Chancellor a year ago Mrs Thatcher was influenced, at a distance, by Sir Alan Walters who having been the Prime Minister's economic adviser in the early 1980s, was then working in Washington for the World Bank.

His return to Downing Street, which serves also as the Prime Ministers' office, at the beginning of May has been a decisive factor in keeping alive the talk of a policy rift between Mr Lawson and his boss.

Sir Alan has been ultra-careful to keep his head down since his return. By all accounts an amiable man, he has, in his words, decided "simply to clam up," on the grounds that he cannot be held responsible for any misrepresentations of his views in the press.

This deliberate aloofness has made his influence over the Prime Minister appear all the more potent. Her words have been analysed with the application formerly devoted to leading articles in Pravda for traces of his ideas. It is clear, however, that he is influential: "He has a track record and so has to be taken seriously," said one Whitehall insider.

But to assume that Mrs Thatcher parrots his every word is to misunderstand the relationship between Prime Minister and adviser. It is well known that, more than most people, the Prime Minister delights in the cut and thrust of robust debate. So does her Chancellor.

Mr Lawson was probably being disingenuous when he said in a television interview last Sunday that his discussions with the Prime Minister were frequent and "very cordial". The view from Westminster is that relations between the two are quite strained.

But there is no denying that Mr Lawson has appeared ebullient in all his recent public appearances. The man who a year ago was unsackable because he had delivered the 1987 election victory and masterminded the 1988 tax-cutting budget now probably is unsackable because he has to return the economy to stability.

Assuming he is not moved in the forthcoming cabinet reshuffle things could look different for Mr Lawson in a year's time, especially if he succeeds in bringing down inflation without causing a recession.

The final abolition of exchange controls for Italy and France next July will bring the question of Britain's full membership of the EMS and the underlying difference between Chancellor and Prime Minister back in to sharp relief.

It may be that Mr Lawson has put a time bomb ticking not just under his relationship with Mrs Thatcher but under his own position as well.

THE LEX COLUMN

Small comfort from Maggie's message

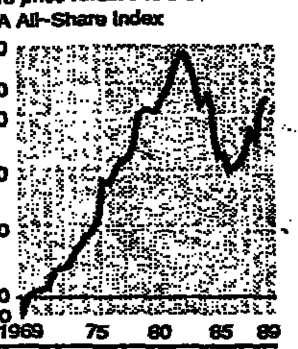
Sterling staged a half-hearted recovery on the foreign exchange markets yesterday after Mrs Thatcher pledged her full support for her Chancellor. But it is still touch and go whether this rather belated display of Cabinet unity will be enough to prevent another defensive hike in UK base rates. The last increase was a complete failure – the pound's trade weighted index has fallen by another 2½ per cent since then – and the worry now is that it may take some real shock treatment to restore confidence.

Last year foreigners were happy to hold an overvalued pound because UK interest rates were high and the authorities seemed committed to use a firm exchange rate to curb inflationary pressures. Now they are not so sure, and 14 per cent plus money market rates no longer hold much appeal when the exchange rate is being allowed to decline at an annual rate of close to 14 per cent, as it has so far this year. The foreign exchange markets scent indecision.

Is the firmness of the Government's anti-inflation commitment being tempered in order to avert the political risks of a recession? The longer sterling is permitted to slide, the greater the suspicion that the latter is half-way true. To do nothing can be self-defeating, yet the scale of the interest rate rise needed to restore confidence may be unacceptably large. Maybe the dollar will offer a temporary respite, and the West Germans will not push up their interest rates. But failing this, if governments do not face up to reality, foreign exchange markets have a habit of forcing them to do so.

Racal

Racal
Share price relative to the FT–A All-Share Index



In the rarefied atmosphere which surrounds the share prices of the two Racals at the moment, vulgar facts – like the level of last year's profits – simply have no place. The shares of both companies managed a substantial movement yesterday – Racal Telecom rose by nearly 3 per cent, and Racal Electronics by half that – but most of the work was done well before the results had made it to the screen.

The market may well be right in thinking that the news of a pretty awful year for data communications (one of only three core businesses for the parent Racal) is neither here nor there. For the near future, it will remain true that cellular radio is the key to valuing Racal, and the US the key to valuing cellular; the rest is a minor diversion.

But even viewed with the starry eyes of Wall Street, Racal Telecom is no longer looking quite so aggressively cheap. According to cellular radio's very own valuation method, Racal Telecom is selling on $150 to $160 per "pop". Yet much of the rest of the US cellular industry is selling on not much more – despite last week's extravagance from McCaw. That does not mean the Racal Telecom share price will stop levitating just yet; but the days of flogging it off as obviously cheap are probably over. It may well be true that Racal, with its national network, should be worth more than the more parochial US companies; but that is a more subtle argument which will be much harder to sell to the average techno-dazed investor.

BAA

The market has been so busy wondering whether BAA is a property company or a dull old utility, and worrying about a change to its regulatory ground rules, that it has overlooked the natural cycles inherent in building and running airports. The reminder from the company that the cost of opening Stansted will mean little, if any, earnings growth in 1991 and 1992, shocked the market into pushing the shares down by 5 per cent. Not only should everyone have been aware of that anyway, but it does not matter much: yesterday's almost embarrassingly large 30 per cent increase in earnings shows how things pick up when the passenger growth at the new terminals starts to come through.

That does not mean that the shares are now cheap, however. Indeed, unless one views BAA as a property play, it is difficult to argue for a slight premium to the market given that the earnings miracle only has another year or two to run, and that by the time growth starts to accelerate again, the MMC will be reviewing BAA's pricing formulae.

Cynics will argue that yesterday's figures were prepared with the MMC in mind. The decision to revalue assets conveniently depresses the return on capital, while the decision to take a £16.2m hit to profits against an accounting change rather than adjust previous years is unduly conservative. However there is not enough here to make the MMC suspicious; the asset revaluations seem legitimate enough, and the one-off charge is offset by the adoption of a more lenient depreciation policy.

SG Warburg

The mysteries of merchant bank accounting are such that too much significance should not be read into the fact that SG Warburg's 1989 pre-tax profits rose by £400,000. However, even if they had been £20m lower, the strength of Warburg's financial performance in a sector where rivals are falling by the wayside should not be underestimated. Warburg's asset management business is the envy of many, its corporate finance department goes from strength to strength, and at least UK equity market making is in the black.

Double up the second half profits and the group could be earning pre-tax profits of around £130m a year. However, this is an optimistic guess, and although the group is selling on a market multiple, it still needs a considerable leap of faith to believe that it can earn an above average return over the long term on its £622m of shareholders' funds.

Magnet

The bid for Magnet was meant to test the water for leveraged management buyouts in the UK; that deal may now be unconditional, but the temperature reading is pretty low. It has been a dreadful struggle even to get 80 per cent acceptances, and without the extra inducement of rising interest rates the job might not have been possible at all. Even though the grumbling 20 per cent will probably now fall into line, they have given their concerns a good enough airing to make other leveraged buyout specialists think twice before making an onslaught on the UK market.

Menem to take over five months early

By Gary Mead in Buenos Aires

MR CARLOS MENEM yesterday agreed to assume the Presidency of Argentina five months earlier than constitutionally required after a surprise announcement by President Raul Alfonsin that he would step down on June 30.

But the promise of a smooth negotiated transition to the Peronist President elect was immediately clouded by veiled threats in Mr Menem's acceptance statement. He raised the prospect of investigating possible instances of corruption under the outgoing Radical government immediately after taking office.

This threat could lead to the plan for an early transition being derailed, further delaying measures to deal with the country's worst ever economic crisis. The country has seen serious food rioting and looting in its third largest city, Rosario, as well as on the outskirts of the capital Buenos Aires in recent weeks.

Mr Menem and Mr Alfonsin had been due to meet this week to discuss a date to hand over the presidency, which Mr Menem won on May 14. However, Mr Alfonsin's announcement in a nationally broadcast speech on Monday night, preempted this, apparently without prior consultation with Mr Menem.

Although President Alfonsin is constitutionally entitled to remain in office until December 10, a series of economic and political crises have increased speculation that he would leave earlier. However, neither Peronist nor Radical politicians had previously mentioned a date as early as the end of this month.

Mr Menem was clearly caught off guard by Mr Alfonsin's announcement, and at first reacted by condemning the decision to resign.

He later said: "We are ready to accept the date which has been proposed" for his inauguration as Argentina's 46th president.

Besieged Kabul learns to live on the breadline

Continued from Page 1

the southern province of Logbar.

The bribes have, however, inflated prices beyond the reach of the ordinary man.

The average wage in Kabul is afs 5,000 ($21) a month. Half of this goes on the family's monthly flour supply, leaving enough for only two kilos of meat.

The poor suffer most, too, from the daily rocket attacks on Kabul. During the last week, a "quiet time", between four and 20 rockets have fallen each day,

Government officials claim that not a single rocket has hit a military installation. The Mujahideen's main target is Kabul airport.

On Sunday seven rockets were fired in that direction. All missed, with most landing on the nearby residential area of Khal Khanna, where the mud-walled houses can be reconstructed in a day.

Abdul Haq, Kabul's most influential Mujahideen commander, who has claimed responsibility in the past for rocket attacks, now says such assaults need to be better planned. "If out of 10 rockets fired on the airport six hit civilians, then I could not allow it. We are fighting to free the people, not kill them."

While the Mujahideen are reluctant to remove pressure on Kabul, the frequency of rocket attacks is giving the government the opportunity to try to claim the moral high ground.

It reminds people on the state-controlled radio, the only source of news for many, that while the Soviet soldiers have left, the Mujahideen are still firing US-supplied rockets, part of more than $2bn-worth of equipment supplied to the resistance since the Soviet invasion in 1979.

UK urges repatriation of boat people

By William Dullforce in Geneva

THE US and Britain clashed in Geneva yesterday over the British proposal for the enforced repatriation of Vietnamese boat people from Hong Kong.

Sir Geoffrey Howe, UK Foreign Secretary, told the United Nations Conference on Indo-Chinese Refugees that mandatory repatriation from Hong Kong of the boat people, who could not be classified as genuine refugees, should start as quickly as possible.

His sternly worded demand, which was accompanied by a threat that Hong Kong might stop granting asylum, differed sharply from the attitude taken by Mr Lawrence Eagleburger, the US Deputy Secretary of State, who said that Washington remained "unalterably opposed" to enforced repatriation.

The voluntary repatriation prescribed in the new plan of action which the conference will adopt today was not enough to deal with a problem of the scale and urgency facing Hong Kong, Sir Geoffrey said.

Of more than 40,000 boat people in the colony, fewer than 150 had so far returned voluntarily. The continuing inflow from Vietnam had now become intolerable and posed a serious threat to Hong Kong's stability at a time when events in China were causing the gravest anxiety.

Britain has asked that the steering committee, which the conference will appoint to monitor the plan and which was due to convene next October, should meet on Thursday to prepare for the introduction of mandatory repatriation.

Sir Geoffrey said that he had agreed at a Geneva meeting with Nguyen Co Thach, the Vietnamese Foreign Minister, that experts from the two sides should resume talks for the return of those not qualified as refugees "within the next day or two".

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio		–	–	Dubrovnik	F	23	73	Malta	S	25	77	Rhodes	S	25	77
Algiers	S	27	81	Edinburgh	C	15	59	Manchester	S	26	79	Rio de J'o	R	25	77
Amsterdam	S	24	75	Faro	S	27	81	Manila	F	33	91	Rome	S	27	81
Athens	F	23	73	Florence	S	26	79	Melbourne	S	12	54	Salzburg	C	13	55
Bahrain	S	34	93	Frankfurt	S	25	77	Mexico City	C	30	86	San Francisco	C	12	54
Bangkok	F	30	86	Funchal	S	23	73	Miami	F	28	82	Seoul	S	29	84
Barcelona	S	23	73	Geneva	S	22	72	Milan	S	27	81	Singapore	F	32	90
Beirut		–	–	Gibraltar	S	25	77	Montreal	C	12	54	Stockholm	F	20	68
Belfast	F	18	64	Glasgow	R	17	63	Moscow	T	16	61	Strasbourg		–	–
Belgrade	F	20	68	Guernsey	C	17	63	Munich	C	17	63	Sydney	S	17	63
Berlin	S	23	73	Helsinki	F	14	57	Nairobi	F	20	68	Taipei	C	32	90
Biarritz		–	–	H Kong	C	29	84	Naples	F	27	81	Tangier	S	25	77
Bombay		–	–	Innsbruck	C	17	63	Nassau	F	31	88	Tel Aviv	S	30	86
Bordeaux		–	–	Inverness	R	17	63	New Delhi	S	39	102	Tenerife	S	26	79
Brussels	S	25	77	Islamabad	F	41	106	New York	C	17	63	Tokyo	F	24	75
Budapest	C	22	72	Istanbul	F	22	72	Nice		–	–	Toronto	C	16	61
B. Aires	F	15	59	Jakarta	C	33	91	Nicosia	S	25	77	Tunis	S	26	79
Cairo	S	38	100	Jersey	S	24	75	Oporto	F	21	70	Valencia	S	26	79
Cape Town	S	21	70	Jo'burg	S	16	61	Oslo	S	23	73	Venice	F	24	75
Caracas	R	26	79	Lima	C	18	64	Paris		–	–	Vienna	C	16	61
Casablanca	S	28	82	Lisbon	S	26	79	Peking	C	21	70	Warsaw	F	21	70
Chicago	C	17	63	London	S	25	77	Prague	F	20	68	Washington	F	22	72
Cologne	S	25	77	Los Angeles	S	15	59	Reykjavik	C	11	52	Zurich	S	23	73
Copenhagen	S	24	75	Luxembourg	S	23	73								
Corfu	F	24	75	Madrid	F	30	86								
Dallas		–	–	Majorca	F	26	79								
Dublin	S	20	68	Malaga	S	29	84								

Readings at mid-day yesterday

C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

UK firms plead guilty

Continued from Page 1

build-up of a stake of 9.7m Gold Fields ordinary shares (about 4.9 per cent of its issued capital) "and the difficulties experienced in establishing their ownership."

Gold Fields was particularly sensitive about unusual share activity because in 1979-80 De Beers Consolidated Mines, part of Mr Harry Oppenheimer's industrial empire, which includes the Anglo American Corporation, built up a stake in Gold Fields and followed up with a "dawn raid."

This provided the 28 per cent shareholding in Gold Fields which Minorco, the Luxembourg investment company 60 per cent owned by De Beers and Anglo American, used as the base from which to launch its recent unsuccessful bid for Gold Fields.

Section 212 notices are widely used by companies which face a bid or fear that one may be launched. In 1986, though, they were a new and relatively untested weapon and this apparently led to problems at both James Capel and Smith New Court.

FINANCIAL TIMES
COMPANIES & MARKETS
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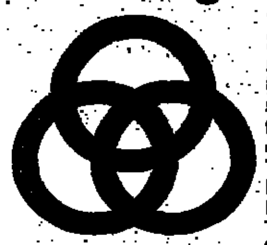
INSIDE

Are ducklings just swanning around?



The two ugliest ducklings of the West German steel industry, Fried Krupp and state-owned Salzgitter, have begun talks on a possible merger. The news has done little to inspire old hands in the industry. The last decade is littered with merger attempts which have run aground on boardroom politics. Krupp and Salzgitter may be a new combination but there is no reason to believe they will be any different, it is argued. But cynics may be wrong to rule out the deal completely, reports David Goodhart. Page 27

Answering the call of the wild

It used to be such a simple business: supplying a few bare essentials to hardy trappers in exchange for animal pelts. No longer, however. From Resolute Bay in the high Arctic to Wawa, on the shores of Lake Superior, improving technology and the growing mobility of inhabitants are wreaking change on the operations of Canada's Northern Stores. Page 29

Mexico returns to bond market

Mexico, currently negotiating with banks for a partial write-off of their loans to the country, has made its first public international bond issue since the start of the debt crisis in 1982. The $100m issue was arranged by Merrill Lynch and sold mostly to individual investors, raising the possibility that a modest high-yield bond market for Third World debtor countries could develop. Page 31.

For Southfork read Smithfield

If it were a script from the Dallas or Dynasty soap operas it would have millions of television viewers on the edges of their seats. All the ingredients are there: a boardroom split, complex family allegiances, unlocked property potential, and a call for the removal of directors by a large City institution. For the shareholders of Meat Trade Suppliers, however, the lengthy battle between the founding family has been a less-than-happy affair. Nikki Tait explains why. Page 34

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)							
Rises				Credit Lyon.	640	+	31.5
RWE	308.8	+	6.3	Crouzet	653	+	34.8
Viag AG Alque	331	+	10.7	**Falls**			
Falls				C.M.B. Pack	675	−	28.1
BMW	558.5	−	12	Ingenico	221	−	7.8
Deut. Babcock	182.5	−	4.5	Sommer-Allibert	2375	−	63.2
Linde	716	−	13	**TOKYO (Yen)**			
NEW YORK ($)				**Rises**			
Rises				Ishizuka Glass	1590	+	200
Time Inc.	182¾	+	10	Nihon Matai	1170	+	90
Falls				Shiseido	3140	+	300
Ashland-Tate	18¾	−	4	**Falls**			
Gen. Electric	52¾	−	1½	Nikon Tokushu	1560	−	120
Merck	69⅛	−	1¾	Saeki Eng'ing	1480	−	120
Motorola	53⅝	−	1⅛	Toyo Telecomm.	1690	−	150
Pfizer	57⅞	−	3¼				
PARIS (FFr)							
Rises							
GSEE	608	+	29.4				

New York prices as at 12.30pm.

LONDON (Pence)							
Rises				BAA	341	−	17
Lovell (Y.J.)	538	+	58	Beecham	612	−	11
Racal Elec.	546	+	10	Bellway	282	−	14
Racal Telecom	519	+	14	Blue Circle	546	−	22
Sturge Hldgs.	254	+	14	Brit. Aero.	660	−	15
Sun Life	953	+	10	Cookson	325	−	10
Unilever	561	+	8	Fisons	287	−	10
Warburg (S.G.)	326	+	13	Morgan Grenfell	269	−	6
Falls							
Alphameric	100	−	17				

Warburg's steady profits beat analysts' forecasts

By David Lascelles, Banking Editor

S.G. WARBURG Group, one of the UK's leading investment banking groups, reported pre-tax profits of £111.5m ($169.5m) for the year ending March 31 1989.

The result represented only a small increase on the previous year's £111.1m. But it was much higher than analysts had been expecting given the widely publicised problems of the markets, and the reduced profits reported by other merchant banks. The shares gained 13p to 326p.

Sir David Scholey, chairman, said the scope and balance of the group enabled it as a whole "to make progress and achieve a basis of profitability which gives us cause for encouragement".

The profit, which was struck after a transfer to inner reserves, was equivalent to 33.8p per share, a decline of 10 per cent owing to the effects of a rights issue and shares issued for acquisitions.

The dividend is being increased by 8.7 per cent to 12.5p, where it is covered 2.7 times.

As is customary, Warburg gave few details of the performance by individual units, which include banking, corporate finance, securities trading and distribution, and asset management. But Sir David said the equities business had made a profit, albeit "by no means satisfactory for the long term". This had been achieved through tighter cost controls and better position taking.

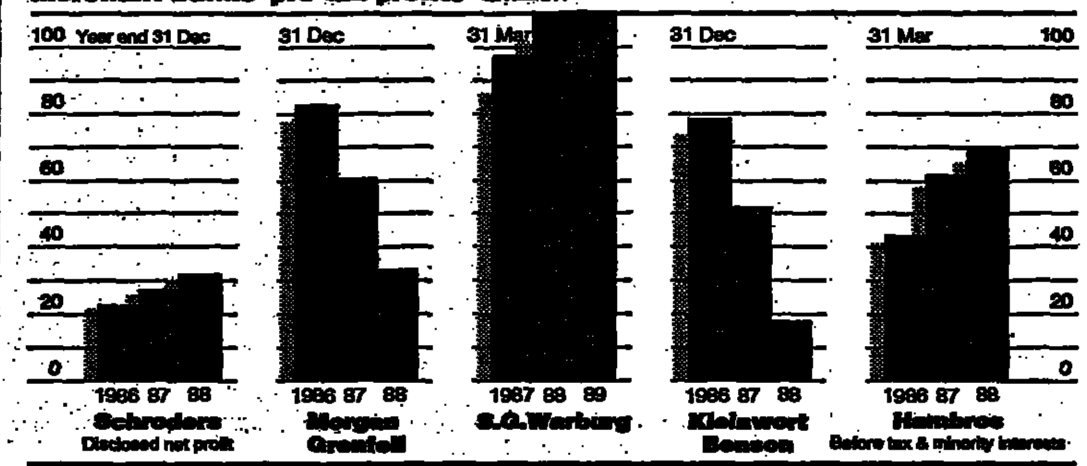
Other parts of the business which he singled out for their contribution were corporate advice and financing, foreign exchange and investment management. He declined to say whether the debt securities operations made a profit as well. Mercury Asset Management, the fund management offshoot of which Warburg owns 75 per cent, earned £42.1m pre-tax, up from £39.1m.

Offsetting the improvement in the securities operations were increased costs related to the group's expansion overseas, where it sees its main avenues for future growth. Sir David said Warburg had widened its coverage of France, Canada, West Germany, Spain, Portugal and South Korea.

Sir David said that the outlook was "challenging and stimulating." The period of slower economic growth now facing the industrialised countries was acceptable in the context of government efforts to fight inflation. But he warned that this would continue to put a damper on the securities markets, though it should not impede Warburg's growth.

Lex, Page 24; Mercury Asset Management results, Page 33

Merchant Banks' pre-tax profits £million



Behind the mystique, a tough and lonely quest

David Lascelles on the challenges ahead for the UK investment banking group S.G. Warburg

Whenever people bandy about the names of those most likely to succeed in the global finance business, S.G. Warburg is usually among them. The London-based investment banking group is widely considered to be the most able, well-run and widely connected of the British houses. It even manages to retain a bit of mystique – a rare commodity in today's hard-nosed world.

But, as yesterday's results showed, being a contender in the international financial markets is also tough. Although Sir David Scholey, the chairman, was able to surprise the City with better than expected profits, the shroud of secrecy which Warburg throws over its accounts could not conceal the fact that parts of the business are still losing money, and that high expansion costs are dampening profitability.

For the last two years, Warburg has been able to head off the question of how it earns its keep. First, there was the Big Bang in 1986, which involved heavy outlays on buying brokers and jobbers in order to transform the merchant bank into a fully integrated investment banking business. That could be put down to building for future success.

Next, there was the market crash in October 1987, which plunged Warburg's equity securities side into loss, but could hardly be blamed on management. The shock of that event fed through to other parts of the business, particularly underwriting.

But now that the markets have regained some of their composure, the question of when Warburg starts to deliver has become more pertinent.

What yesterday's results showed was a group still earning its best results from its traditional UK corporate finance business, advising on bids and deals and arranging financing for corporate clients. But elsewhere, things were less rosy. The equity side was said to be in the black – a considerable achievement in recent markets – but not far enough to be satisfactory. Sir David's evasiveness on the performance of the debt side of the business suggests that it is still losing money.

Another drain on profits is the group's overseas expansion programme, which is designed to develop Warburg's presence in North America and the Far East and build up a network in Europe. For a group with global aspirations, Warburg is still relatively poorly represented overseas, especially on the Continent. Ironically, Warburg's very success in corporate finance in the UK is adding to the pressures to go overseas. The group's involvement with the blue chip market is now so broad that it is forced to turn down many deals to avoid conflicts of interest.

A key point of Warburg's strategy is to aim for close integration of its component parts. Last year the group combined its lending and securities activities so that corporate customers now need only one contact point for finance in all its forms: loans, bonds or shares. According to Sir David, this is popular with customers and has streamlined the business. Unlike other houses, where cultural strife has harmed integration, Warburg has blended its various parts with more success.

Warburg has thus become the purest test in the UK of the US integrated investment banking concept, at a time when some other houses have begun to have second thoughts. Among the other large independent merchant banks, only Kleinwort Benson still subscribes to it, although it suffered heavy losses in the latter part of last year. Morgan Grenfell abandoned it last December. Many houses now make a virtue of their specialised approach.

The road Warburg treads has thus become a lonelier one, and possibly harder to justify.

One of the staging points on that road is the achievement of a healthier securities business. Warburg has been controlling costs, and been more cautious about position-taking. But forecasting performance is very difficult, and Sir David says that he is not counting on more houses quitting the markets and making life easier for those who stay.

Another is the establishment of an international presence which can match that of the giants of the business from New York and Tokyo. To the extent that sheer size counts in international investment banking (and many bankers argue that brain power is just as important), Warburg is still some way down the list. With disclosed capital of £805.6m ($1.22bn), it would rank No 13 in the US, and about 20th in a world list including the leading Japanese and European houses.

Warburg has bought a stockbroker in France and has high hopes there. It has also just opened a small corporate advisory business in Spain, where a substantial amount of work is in the offing. Both the Japanese operations and the US are said to be making a profit. But the relative contribution of foreign business is believed to be small. Sir David himself declines to break it down, saying it is hard to define.

Warburg's reputation for getting things right in investment banking is such that it still enjoys considerable credibility, despite the growing disenchantment among those for whom "global" and "integrated" have become dirty words. But, as the poor performance of Warburg's shares on the stock market have shown, the finest strategies must eventually deliver to the bottom line, and that time could still be some way off.

Racal may sell non-core divisions

By Terry Dodsworth, Industrial Editor, in London

SIR ERNEST Harrison, chairman of UK company Racal Electronics, said yesterday that he was willing to sell any of the company's businesses outside its three main operations of telecommunications, data communications and security.

Presenting the group's results following another glittering set of figures from Racal Telecom, Sir Ernest was in pugnacious mood, defending the high rate of return on the car phone activities against consumer critics and emphasising the extent of the company's activities review.

Questioned on the defence business, the heart of the old Racal, he said that the group was now talking on possible deals with companies all over the world. He would prefer a joint venture agreement, he added, but a sale was an option.

The restructuring policy means that defence, radio communications, marine and energy activities, and several smaller specialised businesses are being considered for disposal. Yesterday one of these lesser divisions, the Racal Instrumentation group, was sold for £31m ($48m) to Marconi Instruments, a subsidiary of the General Electric Company.

These disposals are part of a long-term strategy aimed at taking Racal out of manufacturing and redeploying assets in the services and communications sectors.

Meanwhile, the goldmine Racal has struck in mobile phones shows no signs of exhaustion. Racal Telecom, partly floated off last year, is pushing to develop its present system and investing heavily in the next generation of digital networks.

Lex, Page 24; Results, Page 32

La Générale offer-for-sale show takes to the road

By Tim Dickson in Brussels

SOCIETE Générale de Belgique, the leading Belgian holding company, yesterday launched the official marketing campaign for its forthcoming BFr20bn-25bn offer for sale and announced that the issue price will be pitched between BFr2,900 and BFr3,200 ($76).

That is equivalent to BFr4,350 and BFr4,800 ahead of a three-for-two share split which will be agreed at an EGM next Tuesday.

More than 500 European analysts, journalists, and other "specially invited guests" packed a Brussels theatre to hear a series of enthusiastic financial presentations from the group's management and leading shareholders – among them Mr Carlo De Benedetti, the Italian businessman whose unsuccessful bid for Belgium's "old lady" caused a major sensation on the European takeover scene last year.

Almost exactly 12 months after hostilities were formally concluded, the newly united protagonists sat on a stage suffused in deep blue, conceived by La Générale's advisers Saatchi and Saatchi and on which the British group's former "client" Mrs Margaret Thatcher would have felt entirely at home.

Instead, the audience was treated to an impressive audio-visual show, complete with soothing music and images of the newly structured group's determination to become a major European centre of excellence.

Altogether 11 per cent of La Générale's capital will be sold in the June 26-30 operation, designed to raise funds for the majority Franco-Belgian shareholding camp led by the French investment bank Compagnie Financière de Suez and the Belgian insurer Groupe AG.

Mr De Benedetti was generous yesterday in his praise of Viscount Etienne Davignon and Mr Herve de Carmoy, respectively chairman and chief executive of La Générale.

He said the turnaround they had achieved at the company had been done at a "remarkable speed" – quicker than he could have expected. He would retain his 15 per cent stake provided he continued to agree with the strategy and unless he found a better means of investing the money.

Mr Maurice Lippens of Groupe AG rejoiced in the fact that after the offer for sale 35 per cent of the shares will be owned again by Belgian shareholders.

The "road show" continues later this week in Paris, London, Geneva and Zurich.

Snecma buys FN engine stake Page 27

Tax probe into Asko subsidiary

By Haig Simonian in Frankfurt

ORDINARY SHARES in Asko, the fast-expanding West German discount retailing group, plunged by DM43 to DM801 in Frankfurt yesterday after news that the company's Adler discount clothing subsidiary was being investigated in connection with alleged tax and customs offences.

According to Mr Elmar Fischer of the state prosecutor's office, 18 prosecutors and some 150 customs officials had searched offices of the group in Germany and Switzerland on Monday and confiscated two truckloads of documents.

The searches had been based on suspicions that Adler may have breached customs rules relating to textiles imports, possibly from the German Democratic Republic and the Far East.

In a terse press release, Adler said it had proof that the investigation was based on allegations by a former executive of one of its subsidiaries, who was fired over a year ago. The unnamed manager had subsequently tried to extort DM5m ($2.49m) from the company by threatening to make his allegations public.

The company added that it had initiated legal action against the manager some two to three months ago on grounds of forgery of documents and embezzlement. That action was now being extended to include damages for lost business and blackmail, it said.

Despite the company's strong reaction, the news of the raids could hardly have come at a worse time for the Asko group. Although its shares reached a year's peak of DM844 on Monday thanks to the recent strength of the German bourse and investors' interest in retailing stocks in particular, Asko has been marked down by concern about its complex structure in the light of the problems at Co op, the large retailer which was rescued by a group of banks last year.

Asko's justified attempts to distinguish itself from Co op have, however, been additionally clouded by lingering investor dissatisfaction regarding the circumstances of a large rights issue last October.

Contrary to the impression given by the company, two of its major shareholders, which are also closely associated with Asko, did not take up their rights, releasing a large number of additional shares on the market and severely depressing Asko's share price.

Asko is due to announce its 1988 results on July 11, when further information about the current investigations into Adler may also become available.

Hopes of US bid for Gateway are dashed

By Nikki Tait

ANY HOPES of a joint bid by Kravis Kohlberg Roberts, the New York leveraged buy-out firm, and Great Atlantic & Pacific Tea Company (A&P) for Gateway, the UK food retailer, were dashed late yesterday afternoon.

A terse statement from KKR said that it had "terminated discussions with an unaffiliated third party which had indicated an interest in possibly participating in a joint acquisition of Gateway."

Moments later, a corresponding statement appeared from A&P, the fourth largest US food retail group, stating that talks with KKR over Gateway were at an end.

KKR added that it had a policy of refusing to respond to market rumours, but that it had made the statement at the request of the Takeover Panel.

Gateway is already on the receiving end of a hostile £1.87bn leveraged offer from the newly-formed Isosceles company. However, over the past two weeks, the food retailer has said that it is exploring a number of other, potentially higher alternatives.

Although Gateway has stated that no firm proposals have been received, speculation mounted last weekend that a joint bid by KKR and A&P was one of the options being discussed.

The Panel is thought to have insisted on a statement in this case, given that rumours were both specific and widespread.

Moreover, on Monday, they were a significant factor in pushing the Gateway share price up from 210¼p to 215¼p. Yesterday's announcement came after the market had closed, but Gateway shares had already eased 1½p to 214p.

It was unclear last night whether the KKR statement meant that the leveraged buy-out specialists were ruling themselves out of the Gateway situation entirely. Asked yesterday whether the statement precluded any action by KKR alone, a spokesman would say only that KKR could not go beyond the formal statement.

INTERNATIONAL COMPANIES AND FINANCE

HCA to sell psychiatric subsidiary

By Karen Zagor in New York

HOSPITAL Corporation of America, the big US hospital chain which went private in March after a $3.6bn management-led buy-out, said yesterday that it is to sell its psychiatric unit for $1.23bn in cash.

HCA Psychiatric Company will be bought by its senior management and an employee stock ownership plan (ESOP).

HCA, of Nashville, Tennessee, will retain a stake worth $150m in HCA Psychiatric's 10 per cent cumulative preferred stock. It will also acquire warrants to purchase between 15 and 30 per cent of the fully diluted common stock of HCA Psychiatric.

The sale is subject to several conditions, including approval by the HCA board and receipt of the necessary finance. The company said: "There can be no assurance that the conditions will be satisfied and that the transaction will be consummated." If the terms are met, the sale should be completed by the end of the year.

The move is in keeping with HCA management's previously announced plans to divest certain assets and businesses to repay a $1.3bn bridging loan which was part of the leveraged buy-out financing.

At the time of the March buy-out, Mr Thomas Frist, chairman and chief executive, said that HCA management would be "moving rapidly over the next two or three months to complete the divestitures of HCA Psychiatric Company, HCA Management Company and HCA International to groups led by the people who now manage those operations."

HCA has already sold Allied Clinical, a laboratory subsidiary, for about $44.6m. On Monday the company said it would sell its management subsidiary for about $43m in cash to a group led by senior managers of the unit and the New York investment firm Welsh, Carson, Anderson and Stowe.

HCA International owns 10 hospitals in the UK, 10 in Australia, five in Brazil, one in Panama and one under construction in Italy. The company also manages hospitals in Saudi Arabia, Singapore and the UK.

Canon buys into US computer maker

By Louise Kehoe in San Francisco

CANON of Japan has made a $100m investment to acquire a 16.6 per cent stake in Next, the California-based computer manufacturing start-up company founded by Mr Steve Jobs, former chairman of Apple Computers.

Next also announced it had signed a distribution agreement with Canon under which Canon would distribute Next's products in Japan and other parts of Asia.

The terms of the investment are essentially the same as those of the agreement Next signed with Mr Ross Perot in 1987, said Mr Jobs. In return for its investment, Canon will have one seat on Next's board of directors. Canon's holdings in Next are limited to a 20 per cent for at least 10 years.

Mr Jobs said the Canon investment "erases any doubts about the financial stability or credibility of the company that anyone might have had." Next would not need to make use of the funds in the immediate future, he said.

"We have another source of income through our licensing agreement with IBM," said Mr Jobs, referring to an agreement whereby IBM licensed some of Next's software. The licensing agreement involved a substantial lump sum payment in addition to continuing royalties, he said.

Next has shipped "thousands, but not tens of thousands" of the workstations it introduced last October.

Canon said it expected to sell "several hundred units per month" of the English language version of the Next workstation in Japan. Next also planned to develop a Kanji (Chinese character) version of the workstation for the Asian market.

Chemical Bank sale

CHEMICAL Bank is to sell its London-based aviation finance business to GE Capital, the finance arm of the GE electrical group, writes David Lascelles. Chemical said the sale was consistent with its decision to pull out of peripheral businesses.

Wal-Mart to expand into NY state

By Roderick Oram in New York

WAL-MART, the fastest-growing of the major US retailers, is to expand into New York state, a key step towards becoming a nationwide organisation.

In under 30 years, Mr Sam Walton has developed his company from one general store in north-west Arkansas into the third-largest US retail chain after Sears, Roebuck and K mart, with sales last year of $20.6bn.

The company has generally stuck to its southern small town and suburban roots and shied away from major cities.

At the end of the first quarter it operated 1,279 Wal-Mart stores and 106 Sam's Wholesale Clubs as well as 17 other stores in only 26 states.

It plans, however, to open Sam's Wholesale Clubs, giant warehouses open to consumer members, in New York state in 1990 and 1991.

Likely cities are Albany, Rochester, Syracuse, Utica, Poughkeepsie and Binghamton.

As part of the same expansion strategy, it said last week it would open seven stores in Pennsylvania in the next few years.

Wal-Mart is unlikely, though, to reverse completely its policy and start building stores in the major north-eastern urban areas, said Mr William Whyte, an analyst with Stephens, a leading regional investment bank.

High costs of land, workers and transport would work against Wal-Mart's low price philosophy, he said.

Our Financial Staff adds: Wal-Mart earlier this year reported a 29 per cent increase in profits in the first quarter, as sales increased sharply.

Net income rose to $198.29m or 35 cents a share, compared with $153.55m or 25 cents a share in the same period of the previous year. Sales were up by 25 per cent, to $5.37bn from $4.28bn in the previous year.

The company attributed the increase in earnings to an improvement in sales of clothing and to a better in-stock position.

Sales, the company said, were above forecast throughout the first quarter.

GM to launch drive-in servicing centres

By John Griffiths

GENERAL MOTORS yesterday unveiled plans to launch fixed-price, drive-in servicing centres across Europe, in an attempt to win back some of the $750m-a-year parts and service business its 4,000 franchised European dealers have lost to independent operators.

The first Masterfit centres are to be opened in the UK in the next few weeks. By the end of next year, a total of 600 outlets should be operating in the UK, France, West Germany, Spain, the Benelux countries, Switzerland and Austria, according to Mr David Herman, executive director of GM's European parts and service operations.

They represent a belated attempt to reverse a trend in which more than 50 per cent of all parts and servicing business related to GM's Opel and Vauxhall cars, and Bedford vans, has been wrested from the franchised trade by aggressive independents like Mr Tom Farmer's Kwik-Fit Euro chain in the UK.

According to GM's research, however, its European subsidiaries have fared no worse than other volume manufacturers in this respect. Its statistics show 49 per cent of Europe's total after-sales business in the hands of the franchised trade, 23 per cent taken by independent garages, 8 per cent by the specialised "fast-fit" chains and 21 per cent by other retailers.

GM is, in fact, the first of the volume manufacturers to confirm that it is taking large-scale steps to claw back this business, although Mr John Costin, director of Vauxhall Parts, expects other volume producers to follow suit. Ford, for example, has promised a "retailing revolution" for the 1990s, in which its dealers will be expected to invest in similar centres – although it has yet to set out detailed plans.

Mr Costin insists that not only will the Masterfit strategy be successful but that "by the year 2000 there will not be any other form of service" for all major manufacturers than franchised dealers' main workshops handling warranty and other major engineering jobs, complemented by Masterfit-type outlets for routine parts replacement and servicing.

He acknowledges, however, that "there is no time to be lost" in developing the Masterfit networks.

This is because GM is anxious to avoid in Europe the situation now prevailing in North America, where, acknowledges Mr Herman, franchised dealers of all the domestic manufacturers have allowed more than 80 per cent of parts and servicing to be creamed off by independents.

In the US, a fight-back along the lines of Masterfit is no longer even a viable option, according to Mr Herman.

Masterfit premises will be financed mainly by dealers themselves, although GM will provide marketing and systems back-up. Some 150 of GM's 650 UK Vauxhall dealers are expected to incorporate such outlets.

They will offer fixed-price, no-appointment servicing on specified operations including tyres, exhausts, shock absorbers, batteries, brakes, MoT testing and servicing.

GM was dismayed by its own research showing that between 40 and 50 per cent of the independents' business was carried out while its own dealers were closed; so the Masterfit centres, in the UK at least, are to be kept opened from 8am to 8pm six days a week.

A similar approach is expected to be adopted in Continental countries, although GM has yet to decide its precise approach in West Germany, where strict labour and commercial premises hours restrictions still apply.

A "viewing gallery," where customers can see their cars being worked on and talk to the mechanics, forms part of the concept, as does the provision of fax and other communications facilities for businessmen waiting for their cars to be finished.

The strategy has been in the planning stage for the past two years. While the Masterfit centres initially are designed to process GM's own vehicle ranges, they may later be extended to "all makes" operating – thus challenging the independent sector head on.

Tribunal delays plans for Vuitton statute changes

By Paul Betts in Paris

THE PARIS commercial tribunal yesterday postponed until September 15 the annual shareholders' meeting of Louis Vuitton, delaying the plans of Mr Bernard Arnault, chairman of the LVMH luxury products group, to change the statutes of the Louis Vuitton offshoot.

By changing the statutes, Mr Arnault wants to force Mr Henry Racamier to resign as head of the Vuitton subsidiary, which owns the Vuitton luggage business as well as Veuve Clicquot champagne and Givenchy fashion. But the veteran head of the Vuitton clan has fiercely resisted Mr Arnault's efforts to oust him.

The Louis Vuitton shareholders' meeting was originally due to be held yesterday. But Mr Racamier sought a court injunction to allow the Vuitton meeting to be postponed until a judgment has been delivered on the fate of an issue of LVMH bonds with warrants recently frozen by the court. Most of these warrants were bought by Mr Arnault.

Mr Arnault was widely expected to prevail in his efforts to change the Vuitton statutes, since LVMH controls 98 per cent of the subsidiary headed by Mr Racamier. Mr Arnault had tried earlier this year to hold a special Vuitton shareholders' meeting to accelerate the change in statutes and force Mr Racamier out. But he was frustrated at the time by the court.

Although the tribunal's decision yesterday has again frustrated Mr Arnault's plans to wrest control of the Vuitton subsidiary from Mr Racamier, the 40-year-old LVMH chairman is generally expected to prevail over his older rival in the end.

● Nippon Life Insurance, the Japanese insurer, holds almost 5 per cent of Club Mediterranee, the French leisure group, according to Mr Vincent Grimond, Club Med finance director, reports Reuter.

He said that in agreement with Club Med, Nippon Life bought a 2.1 per cent stake owned by the French water group, Lyonnaise des Eaux. It picked up the remainder of its stake on the open market.

Nissan unit in Spain increases income four-fold

By Our Financial Staff

NISSAN MOTOR Iberica, 67.67 per cent owned by Nissan Motor of Japan, announced quadrupled profits for 1988 yesterday and said that talks with Ford Europe on joint development of a new vehicle should reach agreement by next month.

Pre-tax profits were Pta9.14bn ($70.9m) last year, against Pta2.34bn in 1987. Turnover increased to Pta183.9bn from Pta102.5bn the previous year.

The company produced 77,832 vehicles against 61,066 a year earlier.

Mr Juan Echevarria Puig, Nissan Iberica's chairman, indicated at the company's annual meeting that there has been a successful conclusion to a year-long feasibility study into the joint development by Ford and Nissan Iberica of a four-wheel drive vehicle designed for the European market.

INTERNATIONAL COMPANIES AND FINANCE

Snecma to buy 51% stake in FN engine division

By David Buchan in Brussels

SNECMA, the French aero-engine maker, is to take a controlling 51 per cent stake in FN Moteurs, the money-losing engine division of the Liege-based Fabrique Nationale Herstal (FN) group, it was announced yesterday.

The deal follows months of searching for a partner for FN Moteurs, after the FN group and its chief shareholder, Société Générale de Belgique (La Générale), decided last autumn that the engine division could no longer go it alone in the increasingly competitive, costly aerospace business. Fiat Aviazione and Rolls-Royce were among those interested in the Liege engine company.

A key to the Snecma acquisition was the decision by the regional Government of Wallonia, the French-speaking half of newly-federalised Belgium, to inject BFr1bn ($23.5m) directly and indirectly into FN Moteurs.

The Walloon regional executive has paid BFr250m for 7 per cent of the shares in FN Moteurs, a stake bought from the FN group on condition that the latter recycles the money back into FN Moteurs. The Walloon executive has also bought BFr750m worth of shares in the FN group from La Générale, on condition that the cash is recycled back to the FN group and, thence, to FN Moteurs.

The aim of this complicated manoeuvre by the Walloon Government is to keep the chief private Belgian shareholders in FN Moteurs committed to the engine-maker's future, despite Snecma's new majority stake. The FN group will still have 42 per cent in FN Moteurs.

The Walloon Government was influenced by the fact that the Snecma offer promised the best hope of sustaining employment in the one high technology sector – aerospace – where Wallonia scores over generally more prosperous Flanders.

FN Moteurs said yesterday it expected ownership by Snecma to increase the Liege company's workload by around 25 per cent.

Because of expected productivity increases, this would still mean the workforce declining from 1,600 to 1,450 by the end of 1992.

The number of jobs, however, would have fallen faster had any of Snecma's rivals succeeded in its offer, the company said.

Last year FN Moteurs accounted for BFr6.4bn out of total FN group turnover of BFr22.4bn, but lost around BFr1bn, compared to a group operating profit of BFr644m. By contrast, Snecma has a turnover about 17 times greater than that of FN Moteurs, at FFr17bn last year. As for the FN group, it is expected to concentrate henceforth on its more profitable activities of making Browning sporting guns and FN military rifles.

Alitalia in deal with Aga Khan

By John Wyles in Rome

ALITALIA, the Italian national airline, is to join forces with Alisarda, part of the Aga Khan's business empire, in an attempt to exploit opportunities opened up by the European Community's liberalisation of regional air services.

The two airlines will jointly own Avianova, which Alisarda set up three years ago to exploit the regional airline market. Its fleet will consist entirely of the Italo-French ATR 42 short-haul aircraft, two of which will be contributed by Avianova and nine by Ati, the Alitalia's domestic operating subsidiary, which will hold the 50 per cent stake in the new joint venture.

The airline's route network will include many national and international services already operated by Ati, although it will also be expanded to establish new connections such as Bologna-Barcelona and Olbia (Sardinia)-Genoa.

When fully operational, Avianova will be flying around 32,000 hours a year, using each aircraft for eight hours a day over 24 different routes.

No details have been given about how much Alitalia is paying for its stake in Avianova, but the two owners claim that the airline will have the basis to become one of the biggest, "if not the biggest" regional operators in Europe.

Mr Bermanno Lotti, former director general of Rai, the Italian aircraft certification agency, has been nominated president of the new joint venture, and Mr Luigo D'Avos, currently Alitalia's technical director, will be managing director.

COMPANY NEWS IN BRIEF

ROTTERDAMSE VINYLUNIE VOF (Rovin), a 50-50 joint venture between Royal Dutch/Shell and Akzo, plans to invest Fl 280m ($122.8m) to boost capacity of its PVC plants near Rotterdam. It said the upgraded plants were due to be commissioned at the end of 1991. They would have a total annual capacity of 295,000 tonnes of PVC, up 80,000 tonnes.

● Huhtamaki, the Finnish confectionery group, reported a fall in profit after financial items for the first four months of 1989 to FM57.7m from FM62.8m. Group turnover was FM1.87bn (FM1.7bn), and operating margins before deductions were FM253.1m against FM205.2m a year earlier.

● Sparekassen Bikuben, the Danish savings bank said it closed its public offer of 1.91m shares on Monday, the first day of the three-day offer period, after the offer was more than 100 per cent oversubscribed. The shares were on DKr270 per DKr100 share, completing the conversion of Denmark's second biggest savings bank into a limited company.

Brierley set to prevent takeover of papermaker

By Ray Bashford in London

SIR RON Brierley, the New Zealand businessman, intends to prevent US paper company James River from taking full control of William Sommerville, the family-controlled Scottish papermaker.

IEP Securities, part of the Brierley empire, plans to use its 22.8 per cent holding in Sommerville to stop James Rivers integrating the Scottish company, based at Penncuik near Edinburgh, into its UK paper-making operations.

Last month James River won acceptance from the Sommerville board for an offer of 720p a share which valued it at £4.7m ($7.3m).

The Sommerville board and family members, who control 56 per cent of the capital, have accepted the offer. Unusually, James River has specified that this level of acceptances is the minimum to declare its offer unconditional.

Mr Stephen Bellamy, a director of one of the Brierley UK companies, said that the offer grossly undervalues Sommerville.

The Brierley company plans to increase its holding above 25 per cent to give it mmore muscle to oppose the James River offer.

IEP estimates that Sommerville shares have a a net asset backing closer to £10, after including undervalued property assets.

With a 25 per cent holding IEP could block special resolutions at extraordinary general meetings which James River would need to win if it sought to change the company's operations.

Several sources in the City suggested yesterday that Sommerville had talked to another possible suitor for the company shortly before the James River bid. At these talks an offer price in excess of 800p was thought to have been discussed.

Mr Gordon Wallace, the managing director of Sommerville, said the company had discussed offers with several groups over a long period of time, but he declined to elaborate.

Mollins and Brierley, Page 33

Doubts harden on steel merger

David Goodhart on talks between Germany's Krupp and Salzgitter

The news that Fried. Krupp and state-owned Salzgitter, the two ugliest ducklings of the West German steel industry, have begun talks on a possible merger has been greeted with a cynical yawn by the old hands of the industry.

For nearly a decade it has been argued that German steel companies are too small by European standards, and between them carry too much capacity, yet the decade is littered with merger attempts which have run aground on boardroom politics.

Krupp and Salzgitter may be a new combination but there is no reason to believe they will be any different, claim the old hands. One analyst even cites the premature leaking of news about the tentative talks – to the news magazine Der Spiegel – as the first shot in Krupp's campaign for the dominant role in the merger.

Although it seems clear that Krupp took the initiative in contacting Salzgitter to talk about specific areas of co-operation, and the possibility of a broader merger, the assumption in the first wave of newspaper reports that the natural home of the combined group would be with Krupp in the Ruhr is highly contentious.

With a Länder election next year in Salzgitter's home state of Lower Saxony, followed soon after by a national election, it is unlikely that the local Christian Democrats would allow control to slip over to the Ruhr whatever the preferences of Mr Ernst Pieper, the Social Democrat chief executive of Salzgitter.

So a full merger – even one without a buyer and a bought – is certainly a long way off, but the cynics may be wrong in ruling it out completely. For one thing the German industrial scene has recently become far more tolerant of giant mergers: Krupp-Salzgitter would be the 11th biggest company in Germany by turnover (DM24.5bn or $12.1bn) and the fifth biggest steel producer in the EC by annual crude steel tonnage (8.6m) behind Thyssen.

But it would remain far smaller than energy concern Veba which is in the process of taking over management control of Feldmühle-Nobel, the paper and engineering group, not much bigger than recently privatised VIAG which has just bought Klöckner & Co, the trading group, and a fraction the size of Daimler-Benz which is still expected to take over MBB.

This list is probably too short to start talking about a new trend towards that hitherto most un-German thing – conglomerisation. Daimler is an exception and the other two deals reflect the attempts of former energy groups to use their protected profits to buy into faster growth fields. (The RWE utility is also busy in the acquisition business.)

Mr Cromme is a relatively young man in a hurry and wants to transform Krupp's dowdy image fast. Salzgitter's Mr Pieper, right, could find chairmanship of the joint group attractive.

But the existence of those deals might make it more difficult for Salzgitter's owner – the Government – to block a merger, as long as it received some cash from a partial flotation of the joint group. And with the Government's backing, any objections from the Cartel Office could be overruled. (The EC steel authorities would approve of a merger.)

The main personalities involved – Mr Pieper, Mr Berthold Beitz, Krupp chairman, and Mr Gerhard Cromme, Krupp chief executive – may also be more of a help than a hindrance. Mr Beitz retires later this month, although he still retains chairmanship of the foundation which owns 75 per cent of the company, and would like to leave having both retained Krupp's independence and set it off on an exciting new course.

Mr Cromme, who seems to have had the merger idea, has only been in his current seat about four months but he is a relatively young man in a hurry and wants to transform Krupp's dowdy image as fast as possible. Mr Pieper will not be pushed around but could find the chairmanship of the joint group an attractive proposition.

What would such a joint group look like and what, if any, industrial logic might it produce? Krupp last year reported a net loss of DM202m (1987 profit DM42m) on sales of DM14.7bn, divided roughly one half steel or steel trading and the other half mechanical engineering, plant construction and electronics.

Those gloomy figures however disguise a tentative recovery helped by the continuing steel boom and the recent sale of part of the heavily loss-making plant construction business to Mannesmann. Even last year the operating profit was four times higher at DM217m and net earnings from Krupp Stahl, the steel business, rose to DM113m (DM5m).

Analysts say its strengths are its stainless steel and some of its engineering companies but add that despite the imminent closure of the Rheinhausen plant (and its replacement with a Mannesmann joint venture) Krupp still produces too much basic steel. It also continues to suffer from a weak balance sheet which makes it highly improbable that Krupp could buy Salzgitter.

In spite of its poor image Salzgitter ought to be worth a tidy sum. Thanks in part to injections of DM2bn from the Government over the past decade it has virtually no debt, healthy reserves, and extensive assets. Last year the steel company founded by the Nazis in 1937 and now stuck out near the East German border made a profit of DM90.2m (DM55.3m) on sales of DM9.8bn and privatisation should be imminent if a Krupp deal does not materialise.

Mr Pieper would like to have diversified faster out of steel – especially steel sections – but he has managed to cut steel and steel trading to only about 50 per cent of sales. The rest is divided between ship and railway carriage building, engineering and electronics.

Krupp-Salzgitter talks have initially centred on jointly building up galvanised steel capacity for the car industry of which Salzgitter has a little and Krupp has none. Advocates of going further claim potential synergy in steel trading, electronics and even in both company's extensive trade with the East bloc.

Such advocates, supported by the German Iron and Steel Association, also claim that Big is increasingly Beautiful in steel and point to the fact that Nippon Steel produces 30m tonnes a year compared with merely 12m tonnes at Thyssen, Germany's biggest producer.

"But once you have a critical mass of perhaps 4m tonnes, size is not vital. A bigger company may just have bigger problems," replies Mr Detlev Rohwedder, chief executive of Hoesch, which last year sounded out the Finance Ministry about Salzgitter but now claims to have no interest.

Mr Rohwedder also rejects the argument that a country can have too many rolling mills: "It is only companies that can have too much of anything."

Most analysts agree that the rather similar structures of the two companies make a merger attractive only on condition that it would be easier to rationalise both steel operations. And that condition is currently wishful thinking.

The recent spate of takeover talk in the steel industry – Thyssen's approach rebuffed by Krupp, rumours of a Thyssen interest in Otto Wolf, and both Hoesch and Krupp advancing on Salzgitter – shows that despite 12 months of steel boom the companies are thinking ahead.

But given the power of the unions in German steel, and their opposition to any rationalisation-driven merger, the companies will probably have to wait until the next crisis before they can begin the next round of rationalisation.

INTERNATIONAL COMPANIES AND FINANCE

Banking on information systems

Alan Cane predicts building societies will spend heavily on software

BRITAIN'S building societies, facing rapid change through new legislation and the growth of the personal financial services industry, see information technology (IT) as a key factor in their planning.

The 14 largest societies are set to spend more than £750m on computer hardware and software in the next three years to support their efforts to compete with banks and other financial services institutions.

The 100 or more smaller societies are committed to spending about £165m, making a total for the building society movement of about £1bn during 1989, 1990 and 1991. But while expenditure on IT in the larger societies is growing at between 15 per cent and 18 per cent a year, smaller members' expenditure is not increasing appreciably.

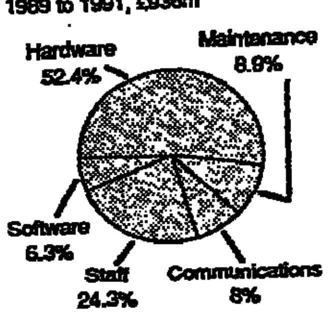
The implication is that the gap between the largest societies – those with over £1.2bn in assets and more than 100 branches – and the rest will grow rapidly as the larger societies use technology to support their business strategies. The smaller societies, nevertheless, see IT as crucial to their continued independence and survival.

Those are among the conclusions of an investigation by International Data Corporation into the relevance and use of information technology among building societies.

It provides an insight into the way the movement, which is already a sophisticated user of IT with roughly one work

Building Society spending on IT

1989 to 1991, £936m



station for every two of the movement's 77,800 employees, is planning its strategy for the 1990s.

The report says: "There is currently a great deal of activity within the movement concerned with new IT-related initiatives, and only a minority of societies are not considering major changes to their systems."

Top priority for most societies was new mortgage systems. For most, the point had been reached where existing systems were too old and inflexible to accommodate changes in the market. Most societies said their software had been modified so often that it had become complicated beyond comprehension.

A complete rewrite would be needed in most cases to develop a system able to accommodate not only a wide variety of mortgage types but also the processing of applications. "Systems will be backed up with much more customer information," the report notes. "Speed of offers is an important objective; it is seen as a major factor in securing new business." Products which the larger societies intended to offer or already provided included current accounts, unsecured loans, deposit-based pensions, home banking and debit and credit cards.

After mortgage systems, the societies showed most enthusiasm for developing customer files. That enabled them to draw up "financial portraits" of their clients to help them anticipate selling opportunities. These was also substantial interest in developing new branch computer systems.

The report shows that the societies, in common with most other commercial organisations, find it difficult to measure the contribution made by IT to their business performance.

Asked how IT investment was justified, one manager said: "In larger projects, we *mostly go by gut feel. If the* project is small, we try for an return-on-investment analysis."

Another said "Mainframe expenditure is not cost-justified, nor is expenditure which relates to issues of strategy and direction," while a third summed up the overall attitude with: "If it is strategic, we just do it. If it is efficiency related, we have to do a cost justification."

Mr Bryan Thresher, author of the study, says an important finding was the societies' emphasis on developing "architected systems" which attempt to provide a common platform and design for all the societies' computer applications.

The implications, he says, are potentially far-reaching, both for societies and their IT suppliers. Architected systems, he says, "define the environment in which the applications may be introduced rather than the applications themselves. It is about building cathedrals rather than carving stone."

Architected systems seem to be an attempt to come to terms with the fact that the life cycle of a typical large IT project would be a decade, while business planning horizons are only two or three years.

"How can IT planners be sure of building effective systems for the future," Mr Thresher argues, "when nobody really knows in detail how they will be used in practice or what other business initiatives will have to be incorporated?"

"With architected systems" *he says, "IT planners are* recognising that change is likely to be the norm in future and are trying to position themselves to handle it."

One consequence is that societies are more inclined to change supplier or use systems from a new vendor in the hope of accelerating their response to market conditions.

Building Societies: Information Technology into the 1990s; International Data Corporation, 2 Bath Road, London W4 1LN; £9,500.

Svenska sets up UK investment company

By Charles Batchelor

Svenska Handelsbanken, the Swedish bank group, has set up a British-based development capital company to invest between £5m and £10m in predominantly privately owned companies over the next two to three years.

Svenska Development Capital will invest equity – or quasi-equity finance – in minimum amounts of £500,000. It aims to enable small and medium-sized companies to expand, to allow existing shareholders in such companies to realise their investments, and to fund management buy-outs and buy-ins.

Mr Ian Milne, who heads the venture, said Svenska had decided to commit a relatively modest sum to development capital – until it had gained experience and had established a track record. Svenska Development Capital will invest the bank group's own money and has not raised finance from other investors.

"In three to five years we will see where we have got to," he said. "If we have done quite well, we will consider opening the company up to outside investors or, more likely, set up a fund which we will manage for outside investors."

The creation of the development finance company is intended to establish Svenska as a mainstream British bank, able to generate its own business opportunities from UK companies.

Banks need increasingly to be able to provide equity alongside loan finance, Mr Milne added.

Svenska will take equity stakes of between 5 and 19 per cent in companies.

It is looking for rates of return similar to other development capital investors – well over 30 per cent annually over five years.

Svenska plans to invest mainly in UK companies but may also invest in Sweden and France.

It does not plan to invest in start-up companies, unless it finds a management team with a proven track record. It will also not invest in high-technology companies.

It has already made one investment, paying less than £1m for a 19 per cent stake in Stewart Newiss, a firm of chartered surveyors.

SCI TECH S.A.
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Notice is hereby given to the shareholders, that the

ANNUAL GENERAL MEETING

of shareholders of SCI TECH S.A. will be held at the head office of Banque Internationale à Luxembourg, Société Anonyme, 2, boulevard Royal, L-2953 Luxembourg, on Friday, June 30, 1989 at 3.00 p.m. with the following agenda:

1. Submission of the reports of the Board of Directors and of the Auditor;
2. Approval of the Statement of Net Assets and of the Statement of Operations as at March 31, 1989;
3. Appropriation of net results;
4. Discharge of the Directors and of the Auditor with respect of their performance of duties for the year ended March 31, 1989;
5. Receipt of and action on nomination of the Directors and of the Auditor;
6. Miscellaneous.

The shareholders are advised that no quorum is required for the items on the agenda of the Annual General Meeting and that decisions will be taken on a simple majority of the shares present or represented at the meeting with no restriction.

In order to attend the meeting of June 30, 1989 the owners of bearer shares will have to deposit their shares FIVE clear days before the meeting at the registered office of the Company or with one of the following banks:

– BANQUE INTERNATIONALE A LUXEMBOURG
2, boulevard Royal – L-2953 Luxembourg
– BANK MEES & HOPE N.V.
548 Herengracht – NL-1017 CG Amsterdam
– *LOMBARD ODIER & CIE*
11, rue de la Corraterie – CH-1204 Genève

THE BOARD OF DIRECTORS

HUMBERSIDE

The Financial Times proposes to publish this survey on:

7th July, 1989

For a full editorial synopsis and advertisement details, please contact:

Hugh G Westmacott
on 0532 454969
Fax: 0532 423516

or write to him at:

Permanent House
The Headrow
Leeds LS1 8DF

FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

COLOMBIA

The Financial Times proposes to publish this survey on:

18th July 1989

For a full editorial synopsis and advertisement [illegible] details, please contact:

NIGEL BICKNELL
on 01-873 3447

or write to him at:

Number One
Southwark Bridge
London
SE1 9HL

FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

INTERNATIONAL COMPANIES AND FINANCE

Serving Canada's modern trapper

David Owen on Northern Stores' changing customers in the Arctic

"We still buy raw furs but they are a smaller and smaller part of our business. They are usually sold at auction. In the last year, we haven't made a nickel on them."

Mr Derek Riley, chairman of Northern Stores, is discussing the changing nature of running a retailing chain which services only remote Canadian communities.

Northern operates at 174 locations ranging from Resolute Bay in the high Arctic to Wawa, Ontario on the comparatively temperate shores of Lake Superior. The townships serviced range from native communities numbering barely 200 to resource centres like the nickel mining town of Thompson, Manitoba – population 15,000.

More technology and the increasing mobility of northern inhabitants are combining to make operating a chain of stores in the frozen Canadian north increasingly similar to operating one elsewhere. "People now think nothing of going from Yellowknife in the Northwest Territories to the Edmonton Mall [the world's largest shopping mall]," says Mr Riley. Gone are the days when northern trading outposts supplied the bare essentials for hardy trappers in exchange for animal pelts.

Mobility and the natives' business acumen are also squeezing margins in the lucrative carvings and artefacts market. "More and more dealers are flying up to the Arctic to deal direct with the carvers," Mr Riley says. "As a result more and more carvers are playing us off against what the dealers are offering them."

Confronted with this evolving marketplace, Northern is striving to provide a broader range of goods for its increasingly sophisticated customers. A catalogue service has been running for several years. A computerised system to handle distribution, retailing and financial record-keeping is being installed. Video rentals are common.

Of course, some special skills, such as a knowledge of local languages dogrib, slavey and inuktitut, are still necessary. Administering a distribution system which encompasses frozen roads in winter and an ocean-going supply ship in summer is also a challenge.

Generally, however, the most extreme problem associated with the remoteness of many stores is the rapid turnover of staff. Mr Riley is considering introducing franchising in an attempt to improve the situation. He would also like to recruit more Scots – if the Canadian immigration authorities will let him – "because they are tough, smart and used to remote locations."

The company itself appears to be adapting well to the changing environment. In the year ended January 28 – its first full year of operations since a group of managers and private investors bought the business from the venerable Hudson's Bay Company in May 1987 – Northern made net earnings of C$11.7m on sales of C$425.3m (US$355m).

The company remains highly leveraged, with shareholders' equity of C$58m against liabilities totalling C$168m. However, it received a strong vote of confidence from its former owner when Hudson's Bay chose to exercise its option to convert a portion of the debt still owed to it into common equity. (About 20 per cent of the original purchase price was paid in securities, giving the Bay a continuing stake in its former subsidiary.)

According to Mr Riley, the move has transformed the Bay into Northern's second largest shareholder with a stake of some 15 per cent. Management and employees constitute the largest single group, with 15.8 per cent of shares outstanding. An initial public share offering is anticipated, although probably not, Mr Riley cautions, within the next year.

More pressing at present is the replacement of Mr Marvin Tiller, former president and chief executive, who abruptly left the company a few weeks ago because of "differences on strategic issues." Both parties insist that the split was amicable.

Touche Ross Management Consultants has been hired to conduct an executive search, although Mr Riley says that there will also be candidates from within the organisation.

In the meantime, Mr Riley – a venture capitalist and former owner of a metal fabricating company – will be handling Northern's day-to-day management.

This will include ploughing some money into the stores. "There is an element of deferred maintenance," he says. "Hudson's Bay's debt was so horrendous that they were not spending much money on the northern stores. They were too busy trying to slay dragons elsewhere."

The company is also considering changing its name to North West Co, the Bay's 18th century arch-rival, although the retail outlets will go under a different (as yet undecided) title. "We want to be perceived as a 20th century merchant while still recognising our historical heritage," Mr Riley explains.

Mitsubishi hits record income

MITSUBISHI Corporation, one of Japan's largest trading companies, lifted consolidated sales 17.1 per cent in the year to March to Y15,644bn ($108bn), and net income 48 per cent to a record Y46.1bn, agencies report from Tokyo.

It was assisted by a "steady increase" in earnings from overseas affiliates, the group said. Sales of machinery, metals, foods and chemicals showed healthy gains.

Nissho Iwai, a smaller rival trader, said that its sales rose 9.7 per cent to Y11,448bn and net earnings 53.8 per cent to Y13.0bn.

● Kajima, a big Japanese construction company, announced annual net earnings of Y20.4bn. Kajima has changed its year-end, and the previous accounting period covered a transitional four months, when profits were Y6.4bn.

Officials said that the company performed well thanks to vigorous domestic activity. This year Kajima estimates net earnings of some Y22bn on revenues of around Y1,510bn.

● Citizen Watch sales increased by 12.1 per cent to Y300.8bn and net earnings were up 61.8 per cent to Y8.4bn. Sales of timepieces, accounting for more than half overall sales, rose to Y161.7bn from Y148.1bn.

This year the group predicts sales totalling Y310bn and net earnings of Y8.6bn.

● Yamato Transport reported consolidated net earnings up 36.2 per cent to Y5.5bn for its year, which ended in March. Revenues totalled Y340.2bn, up 19.1 per cent.

The company said that a buoyant domestic economy generated demand for transport of a variety of goods. Door-to-door delivery services proved especially popular.

Earnings were weighed down by increasing costs, including those of boosting the parent company's service staff. In the current year Yamato expects net profits of some Y5.8bn.

● All Nippon Airways, the expanding air carrier, boosted group net profits nearly a third to an annual Y7.7bn from Y5.9bn, on sales which rose 9.9 per cent to Y623.3bn.

ANA said it had reopened its Peking office this week and Japanese staff, who had moved to an airport branch office for safety, were returning to the city.

Bayer to spend Y35bn in Japan

BAYER, the West German chemical company, plans to invest Y35bn ($242.4m) in Japan in the next few years, Reuter reports from Tokyo.

Its wholly-owned Bayer Japan unit said the investment is expected by around 1992. It will be spent on capital projects including a pharmaceutical research centre.

The Bayer group in Japan, comprising 12 companies, posted group sales of Y174.2bn in 1988, up 7.1 per cent, and profit after taxes of Y7.8bn, up by one third, a statement said.

Bayer Japan said it expects an approximate 15 per cent increase in group sales in 1989 and higher group profits.

For the first five months of 1989, sales amounted to Y81bn, up 17 per cent from the same period of 1988.

DECLARATION OF DIVIDENDS

The following final dividends have been declared in South African currency, payable to members registered in the books of the companies concerned at the close of business on 30 June 1989:

Name of Company (All companies are incorporated in the Republic of South Africa)	Dividend No	Amount per share cents
Deelkraal Gold Mining Company Limited (Registration No 74/00160/06)	13	50
Doornfontein Gold Mining Company Limited (Registration No 05/24709/06)	65	5
Driefontein Consolidated Limited (Registration No 68/04880/06)	32	120
Kloof Gold Mining Company Limited (Registration No 64/04462/06)	39	65
Libanon Gold Mining Company Limited (Registration No 05/08381/06)	77	20
Venterspost Gold Mining Company Limited (Registration No 05/05632/06)	98	35

Vlakfontein Gold Mining Company Limited has not declared a final dividend.

Warrants payable on 9 August 1989 will be posted on or about 8 August 1989.

Standard conditions relating to the payment of dividends are obtainable at the share transfer offices and the London Office of the companies.

Requests for payment of the dividends in South African currency by members on the United Kingdom registers must be received by the companies concerned *on or before 30 June 1989 in accordance with the* above-mentioned conditions.

The registers of members of the above companies will be closed from 1 July 1989 to 7 July 1989 inclusive.

In respect of these dividend payments, the applicable ex-dividend dates will be 19 June in London and 3 July in Johannesburg.

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per pro CONSOLIDATED GOLD FIELDS PLC
London Secretaries
Mrs G M A Gledhill, Secretary

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13 June 1989

United Kingdom Registrar:
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Floating Rate Notes due 1996

Notice is hereby given that the rate of interest on the above Notes for the period 2nd June, 1989 to 1st September, 1989 has been fixed at 11.375% per annum, payable 1st September, 1989.

The amount payable against Coupon No. 12 will be $28.75 per $1,000 Note.

J. Henry Schroder Wagg & Co. Limited
Reference Agent

PNC Financial Corp
U.S. $100,000,000
Floating Rate Subordinated Notes Due 1997

In accordance with the terms and conditions of the Notes, the rate of interest for the interest period 14th June, 1989 to 14th September, 1989 has been fixed at 9¼% per annum. Interest payable on 14th September, 1989 will be U.S. $236.39 per U.S. $10,000 Note.

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Av. du Casino 32 - 1820 MONTREUX Tel. No - 21-963.52.56

CONTRACTS & TENDERS

NOTICE OF INVITATION TO TENDER ISSUED BY THE GOVERNMENT OF THE DOMOCRATIC REPUBLIC OF MADAGASCAR FOR A PROJECT FINANCED BY THE WORLD BANK

1. PARTICIPATION

Participation is open to the eligible countries as follows : all of the Member Countries of the World Bank, Switzerland, Taiwan and China.

2. SUBJECT

Supply of 2 (two) lots of crude oil as described hereafter:

First lot :
Type : CRUDE OIL IRAN LIGHT 34 DEG. API
Quantity : 50,000 Metric Tons, more or less 5 per cent
Port of discharge : Toamasina (TAMATAVE) - MADAGASCAR
Delivery date range at Toamasina : 28 July - 1st AUGUST 1989

Second lot :
Type : CRUDE OIL IRAN LIGHT 34 DEG. API
Quantity : 50,000 Metric Tons, more or less 5 per cent.
Port of discharge : Toamasina (TAMATAVE) - MADAGASCAR
Delivery date range at Toamasina : 26 August - 1st September 1989.

3. THE TENDER DOSSIER

In French, is available and can be obtained free of charge at the following address
SOLITANY MALAGASY
2, Avenue Grandidier - ANTANANARIVO 101
Phone 206-33 ANTANANARIVO
Telex 22222 ANTANANARIVO
Telefax 33474 ANTANANARIVO

4. THE SUBMISSIONS

Should arrive not later than 12.00 hrs local time on the 19th of June 1989 at the following address
DIRECTION DE L'ENERGIE ET DE L'EAU
Ampandrianomby
ANTANANARIVO 101

TENDER FOR SPARE PARTS

Jordan armed forces announces that there are various surplus spare parts for sale in Jordan.

For more information please contact the M.R. & A.A. (Jordan Embassy, ...) Phone 937 9611 (London)

LEGAL NOTICE

IN THE MATTER OF AMERICARE LIMITED AND IN THE MATTER OF THE INSOLVENCY ACT 1986

Notice is hereby given that the creditors of the above-named Company, which is being voluntarily wound up, are required, on or before the 30th day of June, 1989, to send in their full Christian and surnames, their addresses and descriptions, full particulars of their debts or claims, and the names and addresses of their Solicitors (if any), to the undersigned Brian Mills, 1 Wardrobe Place, Carter Lane, London EC4V 5AJ the Liquidator of the said Company, and, if so required by notice in writing from the said Liquidator, are, personally or by their Solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

DATED this 30th day of May 1989.

B MILLS
Liquidator

PERSONAL

PUBLIC SPEAKING Training and speech writing by award winning speaker. First lesson free. 01 950 2107.

COMPANY NOTICE

FIVE ARROWS FUND N.V.
Established in Curacao, Netherlands Antilles

By Management Resolution adopted on June 5, 1989 it was resolved to declare an interim dividend of US$ 0.05 per share for the fiscal year ended December 31, 1989 payable as per June 27, 1989 to holders of shares outstanding as per June 8, 1989.

Holders of bearer shares are entitled to receive the dividend against presentation of coupon no 15 with any of the hereafter mentioned Agent Banks.

Agent Banks
N.M. Rothschild & Sons Ltd
New Court, St. Swithin's Lane
London EC4
England

Rothschild Bank A.G.
Zollikerstrasse 181
8034 Zurich
Switzerland

Rothschild Australia Ltd.
66 Pitt Street
Sydney
Australia

INTIMIS MANAGEMENT COMPANY N.V.

LEGAL NOTICES

No. 002300 of 1989

IN THE HIGH COURT OF JUSTICE

CHANCERY DIVISION

IN THE MATTER OF

CS INVESTMENTS LIMITED

- and -

IN THE MATTER OF

THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 22nd May 1989 confirming the reduction of the amount standing to the credit of the share premium account of the above-named Company at 23rd January 1989 by £1,222,900 was registered by the Registrar of Companies on 25th May 1989.

Dated this 14th day of June 1989.

McKenna & Co.
71 Queen Victoria Street
London EC4
Solicitors for the above-named Company.

CLUBS

EVE HAS OUTLIVED the others because of a policy on fair play and value for money. Supper from 10-3.30 am. Disco and top musicians, glamorous hostesses, exciting floorshows. 01-734 0557. 189, Regent St, London.

INTERNATIONAL APPOINTMENTS

THE BANK OF N.T. BUTTERFIELD & SON LTD.

The Bank of Butterfield is a prestigious organisation located in Bermuda and other major financial centres, offering a wide range of services to its clients. We are seeking a Commercial Training/Lending Officer for our Credit Division.

COMMERCIAL TRAINING/ LENDING OFFICER

The responsibilities of this position are to: design and conduct training programmes; revise and update credit policies and operational procedures; assist with new business development; conduct loan interviews and client credit analysis; administration of a portion of the commercial loan portfolio.

The ideal candidate should have the following qualifications: a minimum of 5 years' lending experience at management level with all levels of personnel; comprehensive knowledge of financial and credit analysis and commercial lending principals; experience with marketing credit products and services.

We offer a tax-free environment in one of the most beautiful resorts in the world. Salary is payable in Bermuda Dollars at par with the US Dollar. Hospital and medical insurance, airfare and full benefits package is included.

Applications, with curriculum vitae, should be sent in complete confidence to:

Michael J. Branco, Manager-Personnel & Administration
The Bank of N. T. Butterfield & Son Ltd.,
P. O. Box HM 195, Hamilton HM AX, BERMUDA

Top-Flight European Graduates...

...Even whith no professional experience !

If you are bilingual, eager to travel, with a diploma in Economics, MBA... (OXCAM, HEC, Heidelberg...), this opportunity is for you.

Our client, a well known multinational group of companies offers you to start your career in a choice of european major cities. Your first assignment will be to integrate the Risk Management Department in a top-notch professional team of Traders.

You can qualify if you are : mobile, rigorous, creative, prompt to act with a strong taste for challenges.

Remuneration and prospects are very attractive.

To apply please send all details (CV and photo) to EKA Consultants. Applications will be treated in total confidence (ref. 027).

EKA
18 Avenue Matignon
75008 PARIS.

COMPANY NOTICES

AIP FINANCE N.V.
US $25,000,000 GUARANTEED FLOATING RATE NOTES 1993

The interest rate applicable to the Notes in respect of the period commencing 14th June 1989 will be 9¼% per annum. The interest amounting to US $24,231 per US $5,000 principal amount of the Notes and to US $435.62 per US $30,000 principal amount of the Notes will be paid on 14th December 1989 against presentation of Coupon No. 3.

BANK LEUMI (UK) PLC
Principal Paying Agent

bank leumi בנק לאומי

National Westminster Bank PLC

Notice to Preference Shareholders

Notice is hereby given that a dividend of 2.45p per share for the half-year ending 30 June 1989 will be paid on 31 August 1989 to holders of the Cumulative Preference Shares registered in the books of the Company at the close of business on 27 July 1989.

By order of the Board
G J POVEY, Secretary
41 Lothbury, London EC2P 2BP
13 June 1989

INTERNATIONAL CAPITAL MARKETS

IFC maiden public issue confirms change of pace

Peter Riddell reports on the World Bank affiliate

The International Finance Corporation's decision to launch its first ever public bond issue – $200m over seven years with a triple A rating – is intended not just as a broadening of its fund-raising strategy, but as an indicator of general expansion.

The IFC, a World Bank affiliate, provides loans and equity finance directly to private-sector projects in developing countries, as well as assisting in the growth of their capital markets.

There has been a change of pace in the organisation in the past four years, with both a clean-up of the portfolio and an expansion into new areas. Since 1985 new investment has grown by about 25 per cent a year – that is its own money provided on a ratio of about 1:5.5 to private money.

In part the IFC has been filling a gap left by the reduction in real terms of foreign private investment in developing countries. In the year which ends this month the IFC will approve about $1.3bn to support projects totalling $7bn, of which 42 per cent by value are in Latin America. However, there is a broad spread elsewhere with Eastern Europe, in particular, opening up.

There has been some controversy concerning the IFC among the political right in the US; the organisation has been variously accused of propping up communist governments and state-run enterprises.

The IFC itself argues that, while it does not rule out some government ownership, it does in general exclude government majorities. The only exceptions are projects where there is a clearly announced government intention to divest. Indeed, the IFC maintains it has assisted in privatisation programmes and the break-up of state monopolies.

Sir William Ryrie: IFC has come of age financially

As the rating agencies note, IFC's financial record has also been strong recently, with a doubling of net income to more than $200m. However, this total has been boosted by taking capital gains on some investments. The underlying net income is nearer $100m to $125m.

Until 1985 the IFC's borrowed funds came from the World Bank, but since then it has increasingly been going to the market in its own name, through private placements and club deals.

These have totalled $1.6bn over the past four years. But with the expansion of its activities, the private market was proving too limited and the corporation needed a broader market to tap.

A public placing – and the associated rating by the agencies – provides greater visibility, as well as emphasising the IFC's separate identity from the World Bank. The corporation is naturally keen to point out that raising money on its own account does not mean higher interest costs since it has already been treated as triple A borrower.

The IFC says market borrowings are expected to represent about 75 per cent of its anticipated $1bn funding needs in the fiscal year starting next month, and in future these will be mainly in the form of public issues. Such issues have the added advantage of making the IFC better known to bankers, who might become involved separately in helping to finance individual projects and in capital market activities.

Sir William Ryrie, executive vice president of the IFC and a former senior UK Treasury official, says: "The ratings demonstrate that we have come of age financially, and validate our market-based approach to development. They also underline IFC's suitability as a partner for bank lenders and investors in projects in the developing world."

Modest recovery by Toronto SE firms

TORONTO Stock Exchange member firms managed a modest recovery in the first quarter this year and, thanks to rising volume, are optimistic for the current quarter, writes Robert Gibbons from Montreal.

In the three months ended March, the 75 member firms posted total profits of C$5.4m (US$4.5m) against a deficit of C$7.9m a year earlier.

Year to year, their employment levels were down 9 per cent to 22,699. Payroll levels at the peak of the bull market in the spring of 1987 totalled 26,000.

TSE share volume was up 18.5 per cent in the latest quarter against a year earlier. For 1988 the member firms showed a loss of C$76m against a profit of C$84m in 1987.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on June 13

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.82
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.87
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.97
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.89
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.86
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.96
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.48
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	10.11
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.86
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.96
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.95
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.90
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0	8.70
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.04
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.98
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.83
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.91
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.81
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.81
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.77
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.86
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.82
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.79
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.06
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.93
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.23
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.71
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.90
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.71
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.16
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.83
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.71
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.57
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.90
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.86
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.83
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.99
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.71
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+1	8.82
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.81
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.49
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.55
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.10
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.09
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.89
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.74
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+1	9.04
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.93
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.14
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.79
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.84
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.76
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.81
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.78
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.72

Average price change... On day [illegible] on week [illegible]

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.97
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.94
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.96
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.95
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.95
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.91
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.97
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.94
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.83
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.91
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.57
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.99
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.11
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.09
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.94
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.86
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.04
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.20
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.09
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.17
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.45
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.37
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.42
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.12
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.93
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.18
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.79
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.35
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.74
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.92
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.12
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.13

Average price change... On day [illegible] on week [illegible]

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.20
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.50
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.74
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.06
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.03
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.77
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.04
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.94
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.63
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.74
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.03
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.56
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.99
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.60
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.28
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.38
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.90
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.86
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.14
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.60

Average price change... On day [illegible] on week [illegible]

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	week	Yield
Canada 6⅛ 91	80	101	101⅛	0	-0⅛	5.39
Canada 5⅝ 93	80	101⅛	101⅜	-0⅛	-0½	5.27
Eurofima 5 1995	20	98⅛	98⅜	-0⅛	-0½	5.30
E.I.B. 4⅞ 93	30	98¼	98½	0	-0¼	5.36
Ireland 5⅛ 93	30	99½	100	0	-0¼	5.19
Norway 5⅛ 95	50	99¼	99⅝	0	-0½	5.22
Sweden 4⅝ 93	50	97¼	97½	-0¼	-0⅜	5.38
World Bank 5⅛ 98	10	98½	99	+0⅛	-0¼	5.30
World Bank 7 94	20	106⅞	107⅛	0	-0¼	5.30

Average price change... On day 0 on week -0½

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	week	Yield
Abbey Nat. 11⅝ 95 £	100	96⅞	97⅛	-0¼	-0⅛	12.39
Aegon 7¾ 92 FL	100	100⅝	100⅞	0	0	7.85
Alg. Bk. Ned. 5½ 92 FL	150	95	95⅛	0	+0⅛	7.56
Alg. Bk. Ned. 5¾ 93 FL	200	93¾	94¼	+0¼	-0⅛	7.64
Austria 7½ 94 ECU	100	†95½	96	-0¼	+0⅜	8.61
Bk.Nova Scot.14⅜ 90 A$	75	95	96	+0⅛	0	17.94
Barclays Aus.13½ 91 A$	100	94½	95	0	-0⅛	16.25
Belgium 8⅛ 94 Ecu	150	97¾	98¼	-0¼	+0¼	8.64
BP Capital 9¾ 93 £	100	92⅛	92½	-0⅜	-0¼	12.38
British Airways 10 98 £	100	88⅛	88⅞	-0¼	-0⅝	12.17
Buhrmann-Tet. 6⅛ 93 FL	100	95	95½	0	+0¼	7.77
Comm.Bk.Aust. 12⅝ 93A$	100	†93	93½	0	+0½	15.00
Coop.Ctr.Rabo.6¼ 93 FL	100	97½	98	0	+0⅝	6.96
CrLocalFrance 9¼ 92Ecu	100	†101⅛	101⅜	0	+0¼	8.66
Deut.Bk.Aus. 13⅜ 93 A$	125	†93⅞	94⅜	0	+0½	15.20
Deutsche Bk.Fin. 15 94 A$	100	101⅞	102⅜	+0⅛	+0½	14.33
Eastman Kodak 13 90 A$	100	95⅛	95⅝	+0¼	+0⅛	17.43
E.I.B. 7 96 LFr	100	†96⅜	97⅜	+0¼	-0⅛	7.56
E.I.B. 9 99 Ecu	150	†101	101½	+0¼	+0⅝	8.80
Eurofima 7⅝ 94 Ecu	100	96	96⅜	0	+0⅜	8.66
Export Dv.Crp.8¾ 92Ecu	100	100⅝	100⅞	+0½	+0⅝	8.48
Fed.Bus.Dv.Bk.9¾ 92 C$	75	†98¼	98¾	-0¼	-0¼	10.36
Fed.Bus.Dv.Bk.10½ 93C$	50	100⅝	101⅛	-0⅛	+0⅜	10.18
Ferrv. Stato 7⅜ 93 Ecu	100	96⅛	96⅝	0	+0¼	8.83
Ford Cr.Can.10¼ 93 C$	100	†100⅝	101⅛	-0⅛	+0⅛	10.41
Ford Cred.Can.10⅞ 96C$	125	103	103½	+0⅜	+1	10.16
Ford Mtr.Cred.7⅞ 93Ecu	100	†96⅝	97⅛	+0⅛	+0½	8.89
Heineken 7⅝ 94 FL	150	100⅜	100⅝	0	0	7.73
Hydro-Quebec 11 99 C$	400	104⅝	105⅛	-0¼	+0¾	10.16
Lloyds Bank 10¼ 98 £	150	89⅜	89⅞	-0⅝	-0⅝	12.22
Lloyds Bank 11⅜ 98 £	100	92⅞	93⅜	-0⅜	-0½	12.63
Montreal Tst.10¼ 93 C$	100	†99	99½	-	-	-
Morgan Guar.Tst. 11 91 C$	150	100	100½	-0⅛	-0¼	10.72
Nat. Aus. Bk. 14⅞ 94A$	100	99	99⅝	+0⅝	+0½	14.95
New Zealand 9½ 93 £	100	90⅞	91¼	-0⅜	-0¼	12.55
Phillips Gloeil. 6 93 FL	300	94½	95	+0⅛	+0¼	7.51
Privatbanken 7½ 94 LFr	500	†98¼	99¼	+0⅜	+0⅜	7.81
Royal Bk.Scot.10⅝ 98 £	125	91¾	92⅛	-0¼	-0⅛	12.19
Saskatchewan 9¾ 91 C$	150	†98½	99	-0¼	0	10.54
Saskatchewan 10¼ 93 C$	200	99⅞	100⅜	-0⅛	+0⅝	10.18
State Bk.NSW. 13⅜ 93A$	100	94⅜	95	+0⅛	-0⅛	15.55
Sweden 15 94 A$	100	101⅞	102⅞	0	+1	14.34
Toyota Mtr.Cr.11⅛ 92C$	150	102⅛	102⅝	-0⅛	-0⅛	10.39
World Bank 13⅜ 92 A$	100	98⅛	98⅝	+0¼	-0⅛	14.02
Zentralsp. 13⅛ 93 A$	75	†95⅛	95⅝	+0½	+0½	14.72

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alliance & Leic.Bld 94 £	.08	99.86	99.91	18/07	13.08
Bank of Greece 99 US$	0¼	99.79	99.89	8/09	10.62
Belgium 91 US$	0	100.21	100.32	19/08	9.38
Chelt.& Gloucester 94 £	.063	99.81	99.86	30/08	14.06
Credit Foncier 98 US$	.063	100.30	100.40	20/10	10.16
Dresdner Finance 99 DM	.031	99.93	100.03	27/07	6.99
EEC 3 92 DM	0	100.52	100.62	20/08	5.63
Halifax BS 94 £	.1	99.86	99.91	6/08	12.97
Invt. in Industry 94 £	0¼	99.99	100.07	24/08	14.06
Leeds Perm. B/S. 94 £	0⅛	100.04	100.09	13/07	13.34
Midland Bank 03 £	.1	98.37	98.67	11/08	12.97
Milk Mkt.Brd. 5 93 £	0⅛	99.94	99.99	30/06	13.06
New Zealand 5 97 £	.07	99.97	100.08	22/08	13.19
State Bk. Nsw. 98 US$	.188	100.50	100.60	11/08	9.87
Woolwich Equit.BS. 95 £	0⅛	100.03	100.08	13/07	13.37
Woolwich 5 95 £	0⅛	99.87	99.92	22/08	13¼

Average price change... On day 0.00 on week +0.03

CONVERTIBLE BONDS	Cnv. date	Cnv price	Bid	Offer	Chg. day	Prem
Alcan 6¼ 02 US$	8/87	62.	115⅛	116⅛	-1½	8.58
Amer. Brands 7¾ 02 US$	10/87	56.7	125¼	126¼	-1¼	1.90
Ashikaga Bank 2¾ 02 US$	4/87	967.	118⅛	119⅛	-0⅛	3.01
Asics 5 92 DM	12/83	472.7	264⅝	266	0	9.68
CBS. Inc. 5 02 US$	4/87	200.	105⅜	106⅜	-0⅜	2.85
Primerica 5½ 02 US$	4/87	66.75	69⅜	70⅜	+0⅜	94.34
Eng.China Clay 6½ 03 £	9/88	4.8	100⅝	101⅝	+0⅝	5.75
Fujitsu 3 99 US$	5/84	1106.	205⅝	206½	+0¼	-1.93
Land Secs. 6¾ 02 £	6/87	6.72	94½	95½	-0½	12.39
Minolta Camera 2¼ 94DM	2/86	1004.	111⅛	112⅜	-2½	5.06
MCA INC 5½ 02 US$	10/87	69.62	94¼	95¼	-0¼	17.01
Mitsubishi Bk. 3½ 04US$	5/89	3266.	90½	91½	+0⅛	4.17
Mitsui trust 2⅝ 01 US$	10/86	1903.	117	118	+1⅜	4.34
Mount Plc 5¼ 03 £	11/87	4.3	98⅛	99⅛	+0¼	282.92
[illegible] Nipp.Bk.2⅞ 03 US$	4/88	804.	109	110	-1	-9.70
[illegible] 2⅝ 02 US$	4/87	1310.	232⅛	233⅛	+0¾	-2.00
Ranks Hovis 4¾ 03 £	1/88	3.5	122⅞	123⅞	-2¼	-2.40
Redland 7¼ 02 £	1/87	5.4	185⅜	186⅜	-1	-1.03
[illegible] 6¼ 03 £	10/89	4.41	91½	92½	-0¼	27.58
Sumitomo Bank 3¼ 04 US$	2/89	4296.	82	83	-0¼	17.40
Texas Inst. 2¾ 02 US$	9/87	82.87	77⅜	78⅜	-0¼	50.09
W.R. Grace 6¼ 02 US$	9/87	42.12	94⅝	95⅝	-0¼	20.83

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

BIS casts doubt on Brady debt initiative

By Stephen Fidler, Euromarkets Correspondent

THE Bank for International Settlements has cast doubt on the role that repatriation of flight capital can play in solving Third World countries' debt problems.

In its annual report released this week, the BIS says that repatriation of flight capital tends to be more a consequence of fundamental improvements in conditions at home than a means of bringing them about.

This contradicts an element of the new debt initiative first outlined in March by Mr Nicholas Brady, the US Treasury Secretary, which suggested a reflow of capital flight could contribute to the solution.

The initiative also called for resources from the International Monetary Fund and World Bank to be deployed to accelerate debt and debt service reduction.

The BIS report suggests that some debt reduction techniques – such as debt conversion programmes which, in effect, provide subsidies for capital imports – may even induce temporary capital outflows as residents seek to benefit from the preferential exchange rates often used for debt conversion.

It says the increase in assets held abroad by residents of a number of Latin American countries over the 10 years up to and including 1987 "may have amounted to a very large proportion of, or even exceeded, their present debts to commercial banks."

BIS figures show that – ignoring the common practice of under and over-invoicing for exports and imports – Argentine private assets abroad grew by $31.4bn in the decade, compared with bank debt of $35.1bn, in Brazil this was $32.1bn compared with $75.9bn, in Mexico by $56.1bn against $69.3bn, and in Venezuela by $38.7bn against $25.6bn.

The report says the new strategy to lower debt and debt service obligations could provide debtor countries with breathing space for the kind of growth-oriented policy adjustments that would otherwise have been too painful to be politically acceptable. It could also avoid the disorderly build-up of arrears to creditors and the consequent confrontation.

However, there are dangers in the new approach. It may generate excessive expectations which delay the conclusion of agreements and encourage governments to suspend current debt-conversion programmes.

It could also create perverse incentives, encouraging countries to drive down the price of their debt in the secondary market, and runs the risk of being considered unfair by those countries which have carried out onerous adjustment programmes and serviced their debts in full.

Officially supported debt relief is bound to affect the willingness of commercial banks to lend additional money without explicit guarantees, the BIS argues.

"How could bank managements justify to their shareholders the extension of new credits at essentially unchanged terms when identical claims can be bought in the secondary market at a substantial discount?" it asks.

The breathing space provided by debt reduction would only help achieve a lasting solution to debtor countries' problems if it were used to create stable macro-economic conditions and to implement necessary structural reforms.

Nippon Life in London link with Shearson

NIPPON Life Insurance is to open an asset management company in London next month in a joint venture with Shearson Lehman Hutton, the US securities firm, Agencies report.

The investment company, called Panagora Asset Management, will have £6m ($9.1m) of initial capital. The company was established in 1987 shortly after Nippon Life took a 13 per cent stake in Shearson.

● Nakadachi Securities may act as a broker in the inter-broker bond market in Tokyo from October, ending the monopoly now held by Japan Bond Trading.

Nakadachi hopes to build up a share of about 20 per cent in the Y50,000bn ($336bn) a month inter-broker bond market. It currently acts as broker for between Y3,000bn and Y4,000bn of bonds a month in the Osaka area.

Company officials believe the Ministry of Finance will soon give Nakadachi a licence to act as a broker in Tokyo.

INTERNATIONAL CAPITAL MARKETS

Another bad day for sterling drives gilt prices lower

By Stephen Fidler in London and Janet Bush in New York

THE COLLAPSING pound again sent shock waves into the UK government bond market yesterday morning, although a shaky recovery made up some of the last ground in the afternoon.

Foreign sellers, from Germany and elsewhere on continental Europe, were cited as active sellers early in the day, perhaps having an effect on both the currency and the gilt markets.

The extent of sterling's decline has, say gilt traders, made it obvious that the UK authorities have decided to allow themselves greater leeway on the exchange rate before moving to raise interest rates.

But the weakness of the pound led to forecasts not only of a one percentage point rise in UK bank base rates, to 15 per cent, but a two point rise instead.

The expectation that the ruling Conservatives will fare poorly in forthcoming European elections and in two parliamentary by-elections simply added to market weakness. The prospect of Thursday's average earnings figures for April and Friday's retail price inflation numbers for May may lead to more subdued trading today and tomorrow.

The benchmark long bond, the 11¾ of 2003/07, closed at 109⅔ compared with 110½ on Monday, while the long gilt on the London International Financial Futures Exchange dropped 22 ticks to 91-22, up from the day's low of 91-06.

GOVERNMENT BONDS

THE West German bond market ended the day unchanged to a touch firmer in quiet trading, following the fortunes of the US dollar and the US Treasury market.

An announcement that German wholesale prices for May rose 0.3 per cent, to give an overall 6.5 per cent year-on-year figure, had little impact. The underlying inflation trend remained a source of concern.

The Bundesbank will announce the allocations for a 35-day repurchase agreement at variable rates. About DM13.9bn will drain from the market from maturing repurchase pacts.

US TREASURY bonds fell by as much as a full point yesterday morning, mostly on profit-taking after last week's huge rally.

At midsession, the 9.125 per cent issue due 2018 was down 1.125 points to yield 8.24 per cent, while the benchmark long bond was quoted a point lower for a yield of 8.22 per cent.

The US retail sales report for May published yesterday came in, as expected, with a gain of 0.1 per cent. Bond prices actually came off their overnight lows in the Far East after the release in spite of news of a sharp upward revision in April sales to a rise of 1 per cent, compared with 0.4 per cent previously reported.

However, after bouncing briefly, bonds started to lose ground again despite a resilient performance by the dollar. In spite of reports of repeated intervention by the US Federal Reserve the dollar was quoted well above its earlier lows at midsession at Y148.40, compared with Y147.90 earlier, and at DM2.0200, from DM2.0130 earlier.

Yesterday's downward move follows a substantial rally of more than three points at the long end of the market, which took the yield on the benchmark long bonds very close to 8 per cent. Selling has to be seen in the context of very sharp fall in yields in recent days.

For some time now the market has looked overbought, given a Fed funds rate which the US Federal Reserve appears to be pegging at about 9⅝ per cent.

The pull-back in short-dated bonds on Monday and yesterday still leaves yields significantly below the Fed funds rate.

The 8.75 per cent issue due 1991 yielded 8.38 per cent at midsession yesterday, compared with a relatively easy funds rate of 9⅜ per cent.

There is concern that the market has run ahead of itself. There has, no doubt, been some significant investment in bonds both from domestic buyers and overseas investors. Forecasts emerged at the beginning of this week that yields would drop further.

One brokerage suggested at the weekend that the long bond yield would fall to 8 per cent within three to six months.

As it turned out, it almost reached that level earlier this week.

BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS	13.500	9/92	104-27	-11/32	11.66	11.42	10.94
	8.750	1/96	93-28	-13/32	10.87	10.77	10.23
	9.000	10/08	95-16	-20/32	9.87	9.76	9.26
US TREASURY *	9.125	5/99	106-04	-14/32	8.21	8.40	8.85
	8.875	2/19	107-21	-18/32	8.18	8.40	8.85
JAPAN No 111	4.600	6/98	94.7445	-0.114	5.47	5.40	5.36
No 2	5.700	3/07	105.7913	-0.198	5.06	5.12	5.06
GERMANY	6.375	11/98	96.7500	-	6.84	6.96	7.00
FRANCE BTAN	8.000	1/94	96.9112	+0.162	8.82	8.85	8.93
OAT	8.125	5/99	96.5200	+0.230	8.65	8.73	8.63
CANADA *	10.250	12/98	106.3750	-0.375	9.38	9.50	9.84
NETHERLANDS	6.7500	10/98	97.0000	-0.025	7.19	7.31	7.35
AUSTRALIA	12.000	7/99	90.8252	-0.300	13.75	13.65	13.37

London closing, *denotes New York morning session
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal
Technical Data/ATLAS Price Sources

Mexico returns as international bond borrower

By Stephen Fidler, Euromarkets Correspondent

MEXICO, currently negotiating with banks for a partial write-off of their loans to the country, has made its first public international bond issue since the start of the debt crisis in 1982.

The $100m issue was arranged by Merrill Lynch and sold mostly to individual investors, raising the possibility that a modest high-yield bond market for Third World debtor countries could develop.

The five-year Eurobond issue, which is paid back quarterly over its life, carries a 10¼ per cent coupon and an issue price of 88.45. The yield to average life of about 2.6 years is just over 16 per cent.

The borrower is the Banco Nacional de Comercio Exterior, and the bonds will be listed on the Amsterdam Stock Exchange.

The bond, handled out of London, was distributed solely by Merrill Lynch mainly to individual retail investors through its offices in Hong Kong, Frankfurt and to offshore clients of some of its US offices. The minimum issue size was $10,000, with the average sale in the region of $50,000.

Although Mexico has renegotiated its debts with banks several times since 1982 and now look for banks to voluntarily reduce their loans to the country, it has serviced its bond issues faithfully.

Almost $4bn of Mexican public sector bonds were outstanding internationally in 1982, but because of maturities the figure has dwindled to less than $1bn. The bonds have been sought after because of their high yields, but do not trade widely.

Clearly, the new bonds have been sold to Mexican nationals as well as non-Mexicans, and as such represents a modest repatriation of flight capital. The money represents new funds for the Mexican Government and may help to finance debt and debt service reduction techniques with the banks.

Since Mexico's outstanding debt exceeds $100bn, the bond issue is not being depicted as any answer to the country's debt problem and a large number of such issues should not be expected. Indeed, investors would probably become concerned that the issues would not be serviced if issuance were too high.

However, bond market officials see modest scope for further development in the concept for Mexico and other Latin American governments.

Mexico's talks with its foreign bank creditors were set to continue in New York yesterday over about $54bn of medium and long-term bank debt.

The negotiations are providing a test case for the debt initiative launched in March by Mr Nicholas Brady, the US Treasury Secretary.

Bulgaria makes Euromarket debut with DM200m offering

By Andrew Freeman

BULGARIA tapped the Euromarket for the first time yesterday, launching a DM150m deal through the Bulgaria Foreign Trade Bank. The issue was brought by Bayerische Vereinsbank and was later increased to DM200m after a strong reception.

Bulgaria had previously borrowed only via private placements in the Japanese domestic market. It is believed the country intends to widen its borrowing possibilities and wants to expand its presence on international markets. Yesterday's deal was the culmination of long discussions between the borrower and Euromarket syndicate officials.

INTERNATIONAL BONDS

The seven-year bonds carried an 8½ per cent coupon and were priced at par. In early trading the paper was quoted inside fees at around less 2 bid, but traded up to less 1.10 bid amid good demand from both retail and professional investors. There was some talk of asset swapping by more professional investors.

After the increase, the lead manager marked the paper down to less 1⅝, but by the close the price had recovered to less 1.30 bid.

Elsewhere, Nomura International was the lead manager of a $250m 10-year deal for Neste Oy, the Finnish state-owned industrial company. The bonds carried a 9¼ per cent coupon and were priced at 101.45 to yield 80 basis points over Treasuries.

The issue's slow reception was described by the lead manager as satisfactory, and the bonds were bid at less 2, a discount equivalent to underwriting commissions.

It is understood that there was a complicated swap transaction behind the deal, but Nomura would not comment on the details.

Traders agreed that investors' appetite for Eurodollar bonds had not matched the strength of the US currency, making placement of recent dollar issues a slow and difficult job.

Lead managers were working to keep the issue spreads stable against a volatile Treasury market. One syndicate official said: "Clients are very choosy, although they will pay for bonds from the right borrower."

The Australian dollar sector was tapped by the State Bank of Victoria which launched an A$50m five-year deal via Hambros Bank. The bonds carried a 15½ per cent coupon and were priced at 102 to offer an attractive yield pick-up over a similar deal for the State Electricity Commission of Victoria.

New-issue traders welcomed the deal, which came at a maturity which had been little exploited in recent months. However, the size of the issue meant that underwriting commitments were small. Retail and some professional interest saw the paper quoted at less 1.90 bid, inside fees of 2 per cent.

A FFr750m seven-year deal for International Credit Finance was brought by Crédit Commercial de France to a slower than expected reception. The paper was quoted just outside fees at less 1.90 bid. The bonds offered a generous 32 basis point spread over French government bonds.

In Germany, a DM300m floating-rate note was issued for Eurofima by Morgan Stanley. The 10-year deal, which is callable after five years, offered a coupon of ⅛ point below six-month Libor and was priced at 100.45. At that level it gave an attractive yield pick-up of about 20 basis points over bunds.

The deal had a fair reception and was quoted by the lead manager at 100.33 bid, comfortably inside underwriting fees of 15 basis points. The proceeds were swapped into a fixed-rate currency.

In Switzerland, two Japanese equity warrant deals had poor receptions in the grey market, in spite of offering substantially increased indicated coupons over recent issues. Shimano Industrial was quoted at around less 4 bid, while Kasumi was trading at about less 3⅞ bid, both well outside underwriting commissions.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Neste Oy◆	250	9¼	101.45	1999	2/1⅜	Nomura Int.
Nippon Sheet Glass Co.(a)ǂ◆	250	4	100	1993	2¼/1½	Daiwa Europe
Nippon Oil & Fats Co.(a)ǂ◆	150	4⅛	100	1993	2¼/1½	Yamaichi Int. (Europe)
AUSTRALIAN DOLLARS						
State Bank of Victoria◆	50	15½	102	1994	2/1¼	Hambros Bank
D-MARKS						
Eurofima(b)‡◆	300	-⅛	100.45	1999	15/7½bp	Morgan Stanley
Bulgarian Foreign Trade Bk◆	200	8½	100	1996	2¼/1½	Bayerische Vereinsbank
FRENCH FRANCS						
Interfinance Cr.National◆	750	8⅞	101½	1996	1⅞/1¼	CCF
SWISS FRANCS						
Shimano Industrial Co.★★ǂ◆	150	(2)	100	1994	n/a	Banque Paribas (Suisse)
Kasumi Co.★★ǂ	120	(2⅛)	100	1994	1⅝	Handelsbank NatWest
YEN						
Postipankki(c)◆	4bn	7	101⅝	1993	1⅝/1	Fuji Int.

★★Private placement. ǂWith equity warrants. §Convertible. ‡Floating rate notes. ◆Final terms. a) Coupon cut by ⅛% from indication. b) ⅛ below 6-month Libor. Call after 5 years at par and on any interest payment date thereafter. c) Redemption linked to Nikkei stock index. Put and call after 3 years.

Alliance & Leicester credit

By Stephen Fidler

ALLIANCE & Leicester, the fifth largest building society in the UK, has awarded a mandate to J.P. Morgan to arrange a $250m five-year revolving credit.

The financing carries a commitment fee of 8¼ basis points, and a margin of 15 basis points above London interbank offered rates for outstandings up to 33 per cent of the facility, which rises to 17½ basis points above that level.

Drawings may be in sterling, in which case the borrower will pay the reserve costs.

● Wates City of London Properties has signed a £105m five-year multi-option facility arranged by Samuel Montagu and N.M. Rothschild. It will be used in part to repay an existing £56m facility.

● The Chicago Mercantile Exchange has fined and suspended two members for pre-arranged trades in Standard & Poor's 500 futures near the time of the October 1987 stock market crash.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tuesday June 13 1989: Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 25%)	Est. P/E Ratio (Net)	xd adj. 1989 to date	Mon Jun 12 Index No.	Fri Jun 9 Index No.	Thu Jun 8 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (205)	[illegible]									
2 Building Materials (29)	[illegible]									
3 Contracting, Construction (37)	[illegible]									
4 Electricals (9)	[illegible]									
5 Electronics (30)	[illegible]									
6 Mechanical Engineering (54)	[illegible]									
8 Metals and Metal Forming (7)	[illegible]									
9 Motors (17)	[illegible]									
10 Other Industrial Materials (22)	[illegible]									
21 CONSUMER GROUP (187)	[illegible]									
22 Brewers and Distillers (22)	[illegible]									
25 Food Manufacturing (20)	[illegible]									
26 Food Retailing (15)	[illegible]									
27 Health and Household (14)	[illegible]									
29 Leisure (33)	[illegible]									
31 Packaging & Paper (15)	[illegible]									
32 Publishing & Printing (19)	[illegible]									
34 Stores (34)	[illegible]									
35 Textiles (15)	[illegible]									
40 OTHER GROUPS (94)	[illegible]									
41 Agencies (18)	[illegible]									
42 Chemicals (22)	[illegible]									
43 Conglomerates (12)	[illegible]									
45 Transport (13)	[illegible]									
47 Telephone Networks (2)	[illegible]									
48 Miscellaneous (27)	[illegible]									
49 INDUSTRIAL GROUP (486)	[illegible]									
51 Oil & Gas (14)	[illegible]									
59 500 SHARE INDEX (500)	[illegible]									
61 FINANCIAL GROUP (123)	[illegible]									
62 Banks (8)	[illegible]									
65 Insurance (Life) (8)	[illegible]									
66 Insurance (Composite) (7)	[illegible]									
67 Insurance (Brokers) (7)	[illegible]									
68 Merchant Banks (11)	[illegible]									
69 Property (52)	[illegible]									
70 Other Financial (30)	[illegible]									
71 Investment Trusts (71)	[illegible]									
81 Mining Finance (2)	[illegible]									
91 Overseas Traders (8)	[illegible]									
99 ALL-SHARE INDEX (704)	[illegible]									
FT-SE 100 SHARE INDEX ◆	[illegible]									

FIXED INTEREST

PRICE INDICES	Tue Jun 13	Day's change %	Mon Jun 12	xd adj. today	xd adj. 1989 to date
British Government					
1 5 years	[illegible]				
2 5-15 years	[illegible]				
3 Over 15 years	[illegible]				
4 Irredeemables	[illegible]				
5 All stocks	[illegible]				
Index-Linked					
6 5 years	[illegible]				
7 Over 5 years	[illegible]				
8 All stocks	[illegible]				
9 Debentures & Loans	[illegible]				
10 Preference	[illegible]				

AVERAGE GROSS REDEMPTION YIELDS	Tue Jun 13	Mon Jun 12	Year ago (approx.)
British Government 1–10 (Low / Coupons / Medium / High coupons / Irredeemables)	[illegible]		
Index-Linked 11–14	[illegible]		
Debs & Loans 15–17	[illegible]		
18 Preference	[illegible]		

[illegible] Opening index; Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL. CHANGE: [illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	5	98	3
Corporations, Dominion and Foreign Bonds	0	20	22
Industrials	209	655	722
Financial and Properties	105	225	330
Oils	14	37	43
Plantations	1	0	11
Mines	24	18	137
Others	73	65	110
Totals	431	1,118	1,378

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. date	1989 High	1989 Low	Stock	Closing Price	+ or -	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
§100	F.P.	-	106	95	Abtrust New Dawn Inv. Tst.	101	+1	-	-	-	-
-	F.P.	-	60	48	Do. Warrants	53		-	-	-	-
§148	F.P.	-	175	140	‡Alan Paul 5p	170		12.5	2.6	1.9	20.6
[illegible]											

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. date	1989 High	1989 Low	Stock	Closing Price £	+ or -
[illegible]							

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price p	+ or -
[illegible]							

[illegible] Renunciation date usually last day for dealing free of stamp duty. [illegible]

TRADITIONAL OPTIONS

● First Dealings Jun 12
● Last Dealings Jun 23
● Last Declarations Sep 14
● For settlement Sep 25

For rate indications see end of London Share Service

Calls in Fosseco, Explaura, Hawtin, Fobel, Wyndham, Control Secs, Utd Scientific, Waltea, West Inds, Budgens, Atlantic Res, Ald Umid Prop, Derea Est, Wilton.

LONDON TRADED OPTIONS

RACAL ELECTRONICS threw a few posers to the cash market yesterday, recovering 8p of the previous day's underlying market loss of 12p, to end at 546p. The company's preliminary results were well received, as was the news of a scrip issue, though the shares did not hold their highest levels of the day.

Trading of options against Racal stock was a feature of the day, as some selling of the stock was was seen, and some buying of the calls. The open interest on the call side rose by 1,733 contracts to 17,204. Overall busines in the share option amounted to 3,328 contracts, made up of 2,955 calls and 373 puts.

The most heavily traded individual series in Racal was the February 550 call, some 956 contracts in which found an opening of interest of 896 to 1,987. There was opening of position of 294 contracts to 929 in the November 550 calls and of 223 to 2,091 in the August 550s.

Dealings in the FT-SE 100 index again ran to over a quarter of total options dealings, accounting for 8,919 contracts, compared with the market total of 33,283. The index itself fell back a further 15.3 points to 2,123.0 on the day.

Overall options trading was divided into 18,273 calls and 15,010 puts. There were 2,171 calls handled in the index, and 6,748 puts. Dealings in the index on Liffe continued to exert a downward drag on the underlying market, with the June contract touching not only a discount to fair value, which allows for dividend and interest rate expectation, but during the day a discount to the index itself. September delivery on Liffe also showed the index at a discount to fair value.

British Steel, which stole most of the show in options trading on Monday, and which produces annual results tomorrow and goes ex-dividend next Monday, was again prominent, attracting 1,737 contracts, consisting of 763 calls and 974 puts. British Petroleum found slightly more options contracts, on 1,771, made up of 207 calls and 1,564 puts.

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
Allied Lyons (*435)	420	26	43	53	6	11	14
	460	7	21	31	29	32	35
	500	1½	9	16	68	68	69
Brit. Airways (*202)	180	25	32	37	1	2½	6
	200	8½	18	23	5	9	11
	220	3	9	13	20	21	22
Brit. Cons (*172)	160	20	26	28	5	7	10
	180	7	17	19	13	15	18
	200	3	7	11	30	30	31
Shell Trans. (*409)	360	-	65	73	-	3	4
	390	30	39	52	5	10	13
	420	11	19	30	14	20	25
Storehouse (*156)	140	18	21	27	4	7	9
	160	6	14	17	18	19	20
Trafalgar (*344)	347	15	30	34	11	18	24
	377	5	16	20	36	36	40
Utd. Biscuits (*336)	300	42	55	61	2	4	7
	330	17	31	40	8	13	16
	360	4	15	22	26	29	31
[illegible]							

Option		Calls Aug	Calls Nov	Calls Feb	Puts Aug	Puts Nov	Puts Feb
Scot. & New (*315)	300	25	31	40	9	15	20
	330	8	17	24	27	31	34
Tesco (*181)	160	26	31	37	2	3	4
	180	9½	16	22	6	8	9
	200	2½	8	12	21	23	24

Option		Calls Jul	Calls Sep	Calls Nov	Puts Jul	Puts Sep	Puts Nov
ASDA Grp. (*172)	160	18	22	24	2½	5	6
	180	7	10	13	11	14	15
Gateway (*214)	200	16	17	18	3	5	7
	220	3	4½	5	9	9	10

Option		Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
Amstrad (*86)	80	10	17	21	4	7½	9½
	90	5	10½	16	8	11½	14
[illegible]							

FT-SE INDEX (*2123)

[illegible]	

June 13 Total Contracts 33,283. Calls 18,273. Puts 15,010
FT-SE Index Calls 2,171 Puts 6,748
*Underlying security price.

UK COMPANY NEWS

Future earnings warning depresses share price

Market forecasts met as BAA advances to £198m

By David Waller

BAA, the former British Airports Authority, made pre-tax profits of £196m in the year to the end of March, the company's second year in the private sector. That compared with £166m in 1987/8, an increase of 19 per cent.

A variety of accounting changes had the effect of reducing the tax charge from 36.7 per cent to 30.8 per cent and as a result, earnings grew at 30 per cent from 21p to 27.4p per share. The proposed final dividend is 5.5p (4.25p) per share making 9p (7.25p) for the year.

Although the figures were at the top end of expectations, the shares dropped sharply closing the day down from 358p to 341p.

Analysts blamed the company's comment that earnings growth would flatten off in 1991 with the opening of the new £395m terminal complex at Stansted in Essex, scheduled for March that year.

Mr Nigel Ellis, finance director, pointed out that increased costs and interest charges associated with the Stansted project would inevitably take their toll on earnings.

Passenger traffic at BAA's seven airports rose by 6.8 per cent to 68m, while cargo traffic rose from 845,000 to 918,000 tonnes.

Group revenue climbed by 23 per cent to £641m while the total spend on security last year was £75m, a figure which is likely to rise by £10m in the current year. Under government regulations, 75 per cent of these costs can be passed on to customers.

Capital expenditure at airports for 1988-89 amounted to an artificially low £177m, and is likely to rise to £270m in the current year.

Mr Jeremy Marshall, chief executive, said that BAA was experiencing difficulties in making progress with the Parliamentary Bill required to authorise a special rail link between Heathrow and Paddington.

"There is a limit – and that limit is not far off," he warned, "to the additional financial burden that this project could carry".

On the subject of the Office of Fair Trading's review of BAA's charges to bus and coach operators at Heathrow and Gatwick, he said that the company had been co-operative and hoped for a resolution to the problem without either a formal investigation by the OFT or a reference to the Monoplies and Mergers Commission.

Revenue from airport charges rose by 14 per cent to £259.7m, with commercial income rising from £204m to £232m. Taking into account a partial asset revaluation, net assets per share rose from £1.80 to £2.81. With shareholders funds at £1.4bn, gearing was up from 26 to 38 per cent reflecting the acquisition of the Lynton property company last year.

BAA's depreciation policy was changed last year, which gave rise to a net benefit to profits to £15m, offset by a £16.2m charge arising because of the reclassification of expenditure on items such as runway repairs. This had previously been capitalised. The changes had the effect of reducing the tax charge.

See Lex

BAA is to develop its first UK off-airport hotel in the centre of Derby. Announcement of plans for the 185-room hotel, which is due to open in the autumn of 1991, coincided with BAA's unveiling of brand names for the hotels it manages. Four-star properties, like the Derby hotel, will be called Seymour and two-star hotels will carry the name Harlequin. At Derby, BAA will have a major equity stake in the development as well as operating the hotel.

Norwegian bid for ML arm

By Clare Pearson

ML HOLDINGS, the aerospace, defence and electrical engineering group, has granted an option for the purchase of its railway signalling subsidiary to EB Corporation of Norway, a fellow member of the Eurosignal Group bidding for the main Channel Tunnel signalling contract.

The total consideration for the option, exercisable until June 1991, is £5.8m, split as to £4.3m for repayment of debt and £1.5m for the shares. EB has also paid £500,000 for new shares representing 30 per cent of the enlarged capital, and put down a £250,000 deposit against exercise of the option.

Mr Peter Pollock, ML chief executive, said he would have preferred an outright sale but EB, which in February moved into signalling with the purchase of Ericsson of Sweden's signalling side, had wanted to do it in stages.

He said ML's Plymouth-based subsidiary, the UK's only remaining independent signals company, had a much brighter future as part of EB, which commands about 10 per cent of the world market. Plymouth was part of the original ML company, which has changed rapidly through acquisition in recent years.

Mr Pollock said the sale was totally unconnected with last December's rail crash at Clapham Junction, part of the Waterloo area of British Rail's network in London where the Plymouth company supplied the signals. ML was exonerated by the inspector on the second day of the hearing in February.

EB is 63 per cent owned by Asea Brown Boveri, the Swedish-Swiss engineering group which is Europe's biggest manufacturer of railway equipment and a backer of the buy-out of British Rail Engineering.

In the year to end-March 1988, Plymouth incurred a trading loss of £52,000 on sales of £9.8m. ML's results for last year, due out on Monday, are expected to show a modest profit.

Magnet a step closer to going private

By David Waller

MR TOM DUXBURY's often controversial relationship with the London stock market is all but over.

His £629m buy-out bid for Magnet, the Yorkshire-based kitchen furniture company of which he is chairman, was declared partially unconditional yesterday.

The offer for the ordinary shares, which has attracted the support of 80.2 per cent of the holders, was declared "unconditional as to acceptances". However, the separate offer for the convertibles was extended as the level of acceptances had only reached 66.5 per cent by Monday night.

Mr Colin Keer, managing director of Bankers Trust, financial advisors to the buy-out team, said it was theoretically possible that the whole deal would be unravelled if acceptances for the convertible offer did not reach 90 per cent within three weeks.

However, it was his view, and the view of the backers to the leveraged transaction, that there was no significant opposition to the deal now, and that the 90 per cent threshold would eventually be breached in each category of shares.

At this level, Mr Duxbury and his colleagues can buy in the minority stake. There was always the possibility of living with an outstanding minority stake, Mr Keer said, but he did not think this was likely to be the case.

Mr Duxbury said that he and the rest of the buy-out team was delighted with the turnout and looked forward to starting a new life as a private company. Magnet's ordinary shares added 1p to 295p, 5p short of the 300p a share cash offer.

Prop Partnerships

Property Partnerships reported net rental income up from £1.17m to £1.3m and hotel turnover from £4.2m to £4.8m for the year to March 31. Tax took £671,000 (£532,000) leaving earnings per share of 12.34p (10p). A proposed final dividend of 3.5p makes a total of 5.5p (4.75p).

Racal Electronics rises to £178m

By Terry Dodsworth, Industrial Editor

RACAL ELECTRONICS achieved a 29 per cent increase to £177.94m in pre-tax profits for the year to March 31, reflecting strong performances in its burgeoning telecommunications division and security activities.

Out of total operating profits of £180m, up from £159m last year, the telecommunications division made £89m (£50m) and security £39m (£28m). The only other sector to achieve an increase was marine and energy, which had profits of £8m against £4m last time.

Racal suffered a fall in operating profits in its Data Communications division, with figures of £27m against £35m, data networks, where the loss increased to £5m from £1m, radio communications which showed a marginal decline to £6m, and defence radar and avionics, down from £19m to £13m. Specialised businesses to also saw a sharp decline in operating profits of £3m from £18m.

Turnover rose 16 per cent to £1.59bn. Interest payments fell from £23.37m to £13.63m, largely as a result of the flotation of part of the Racal Telecom division. Earnings per share, before the extraordinary item of £279.7m arising largely out of the flotation of Racal Telecom, amounted to 18.45p (14.4p).

The recommended final dividend of 4.55p makes a total for the year of 6.015p. A 1-for-1 scrip issue is also proposed.

Sir Ernest Harrison: results of several sectors disappointing.

Sir Ernest Harrison, chairman, said that the group as a whole was in a period of sustained growth, although he described the results of several sectors as disappointing and below expectations. Performance in the current year, he said, would be good.

The three core businesses of telecommunications, security and data communications had contributed 66.4 per cent of turnover and 84.7 per cent of operating profits, he said.

The company would continue to build up these activities through investment and acquisitions, which would be helped by last year's reduction in debt. At the year end Racal's debt to equity ratio stood at only 12.4 per cent against almost 59 per cent a year earlier.

Racal Telecom checks in with £85m

By Terry Dodsworth, Industrial Editor

PRE-TAX PROFITS at Racal Telecom surged from £37m to £85m in the year to March 31 following a continuation of strong growth in the car telephone market. The 12 months saw the addition of a further 140,000 subscribers making a total of 300,000.

The profit figures were slightly higher than the City had anticipated and the company's shares rose by 14p to 519p.

The pre-tax result was boosted by a fall in interest charges to £5m (£13.3m) which resulted from the elimination of borrowings when part of the company was floated last October.

At the trading level, profits rose by 78 per cent to £89.6m on the back of a 74 per cent improvement in turnover to £240m. Earnings per share amounted to 6.21p (2.58p) and shareholders are to receive the forecast dividend of 0.7p.

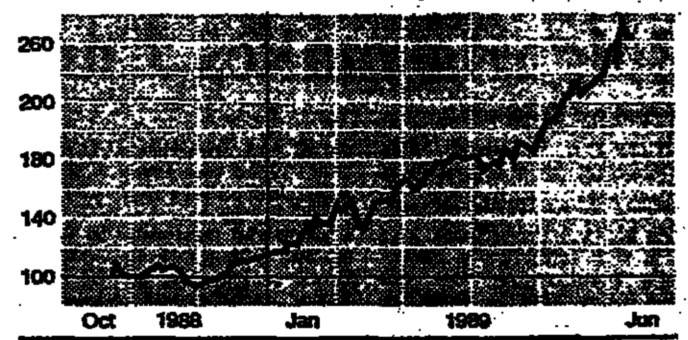
The company said yesterday that investment was continuing at a high level. Last year's spending amounted to £95m, bringing its cumulative expenditure in the network to £247m. It was intending to spend a further £125m in the current year, building on the efforts to improve quality which it undertook last year following a bout of vigorous complaints from subscribers.

Expansion last year created 400 new jobs at the company, which employed about 1,900 people by year end.

It was expecting to take on a further 550 workers in the current year, in which the number of subscribers had already increased by 30,000.

Racal Telecom

Share price relative to FT-A All-Share index



Sir Ernest Harrison, chairman, said the main focus of Racal Telecom's expansion would continue to be in Western Europe, where it saw great opportunities from the accelerating deregulation of the mobile communications market.

He held out great hopes in West Germany, where the company was bidding to become one of the network providers for the planned new digital mobile system.

Racal, which has a stake of between 10 per cent and 20 per cent in the consortium, would take its share of expenditure estimated at around £80m to start the system.

Calor Group pays former directors £250,000

By John Thornhill

CALOR GROUP, the bottled gas company, has made ex-gratia payments to former directors totalling £250,000, according to the company's 1988-89 annual report published yesterday.

Most of the sum was paid to Mr Jim Lindars, formerly the oil operations director who resigned from the board in April 1988 after the demerger of Calor's oil interests into the separately-listed Acre Oil company.

Mr Michael Davies, Calor chairman, also stated that the company is to change its financial year end from March 31 to December 31 in order to provide a better flow of information about its performance during the important winter quarter.

Calor records about half its annual sales in the first three months of the calendar year.

Mr Alistair Pate, finance director, said: "Previously each succeeding warm winter month led to a downgrading of profit forecasts near the end of our financial year. Our thinking is that we should now have a more balanced look to the year."

The change of year end would also have the incidental effect of improving the company's cash flow, he said.

UK COMPANY NEWS

Molins swift to reject second bid from Brierley

By Ray Bashford

SIR RON Brierley, the New Zealand businessman, is making a second bid for Molins following his failure to dispose of a 29.2 per cent stake in the cigarette machinery maker.

IEP Securities, part of the Brierley group of companies, is offering 190p per share, matching yesterday's closing price and valuing the group at £56.3m. Details of a loan note alternative will be disclosed in the formal takeover document.

Mr Michael Wright, Molins managing director, dismissed the offer as "inadequate and unacceptable" and strongly advised its rejection.

He said that the offer price was at a discount to the asset value of 198p per share and lacked any industrial logic.

The terms of the bid led several City analysts to speculate that an alternative offer may emerge from the UK engineering sector.

Asked about the possibility of another bid Mr Wright said: "There has been some rustling of the bushes but we will wait until we see the rabbit."

Late last month IEP launched a tender offer at a minimum of 190p per share for its holding but no offers had been received by the close of the offer period yesterday. The tender offer was accompanied with an undertaking to make an takeover offer for the company at a "realistic price."

Mr Stuart Mitchell, IEP's UK chief executive, said that the offer was part of the group's attempt to resolve its five-year involvement in Molins.

The move also forms part of a more active management strategy of IEP's UK portfolio which has included the disposal of a 14.1 per cent stake in Ultramar, the oil group.

"We want to resolve this matter with Molins so we have turned from seller to buyer. It is our intention to pursue this relentlessly until this matter is cleared up," Mr Mitchell said.

He added that the failure to attract a buyer for the stake was an indication of the stock market's perception of Molins.

Tozer Kemsley & Millbourn, another member of the Brierley group of UK companies, launched an offer for Molins in July 1987 after having built up its stake since 1984.

This initial offer, which included a cash alternative of 300p, lapsed after failing to attract sufficient acceptances.

Molins share's fell sharply last March when the company announced a fall in pre-tax profits from £10.2 to £8m for the year to December 31 and have since remained under pressure.

Interest received boosts Mercury Asset Management

IMPROVED INTEREST earnings helped Mercury Asset Management, provider of investment management and advisory services, achieve an increase in pre-tax profits from £39.1m to £42.1m for the year ended March 31 1989, on turnover down from £102.3m to £100.4m.

Commenting on the figures, Mr Peter Stormonth Darling, chairman, explained that "significant progress" had been made in "resolving the settlement problems on securities transactions which had been experienced in previous years". This was reflected in a boost to interest earnings, which turned round from £1.3m payable in 1987/1988 to £8.3m received.

The reduction in turnover was largely as a result of a general slowdown in stock market activity from the "exceptional market strength" of the first half of the previous year, said Mr Stormonth Darling.

However, although turnover was lower, annual fee income represented an increasing proportion of the company's revenues, he said.

Operating costs rose from £63.6m to £68.4m, "reflecting in part the growth of our business, but also the increasing investment we are making in people, new business development and information technology systems."

Net assets increased from £61.9m to £80.6m, and the value of funds under the group's management increased from £23bn to £27.6bn.

Earnings per ordinary share were 41.6p against 39p the previous year. A final dividend of 11.5p was recommended, making a total for the year of 15p (12p).

Mercury continued to gain new clients, both in the UK and overseas, although the balance was shifting more towards institutional clients as private individuals remained wary of stock markets and were encouraged by the high level of interest rates to hold their savings on deposit, said Mr Stormonth Darling.

Strong growth was achieved in overseas business in countries where the demand for international investment management had more recently emerged, notably in Japan, south east Asia and continental Europe, he added.

French buyer found for Lucas aerostructures operations

By Richard Tomkins, Midlands Correspondent

LUCAS INDUSTRIES, the aerospace, automotive and industrial systems group, has found a buyer for its aerostructures business in Burnley, Lancashire, which it had threatened to close.

The business, which employs about 460 people, is to be sold to Société de Construction des Avion Hurel-Dubois of Meudon-la-Forêt in France for an unnamed amount. The sale should be completed at the end of July.

Lucas Aerospace announced its decision to withdraw from the aerostructures market in May last year, citing it as a further move in its strategy of divesting peripheral operations to concentrate on core activities.

The Burnley operation makes housings for jet engines, known as nacelles, and thrust reversers. Most of its output goes to Rolls-Royce.

In a separate development, Lucas Aerospace has secured its first foothold in the Spanish aircraft industry with the formation of a joint venture with Construcciones Aeronauticos, the state-owned Spanish aircraft manufacturer.

The new company, called Compania Espanola de Sistemas Aeronauticos (CASA), will make engine and airframe accessories for the international aerospace market.

CASA, maker of C101 basic trainer and the C212 and CN235 civil and military transport aircraft, has decided to concentrate its accessory manufacturing in a separate operation with Lucas Aerospace as its international partner.

Lucas will have a 40 per cent stake in the venture, investing £2m towards the £5m required to build and equip a stand-alone operation close to CASA's main site at Getafe, south of Madrid.

In a third development, Lucas Aerospace announced yesterday that it had formed a joint venture with Lockheed Missiles and Space Corporation of the US for the development and manufacture of solid cryogen coolers, known as Cryocoolers.

The Cryocooler is a miniature refrigeration system used in thermal imagers. Initially, Lockheed will make the unit's electronic controls and Lucas the mechanical parts.

Eventually, Lockheed will have the capability to produce complete systems for North American customers while Lucas will cover the Euorpean market.

NHL offer document imminent

By Clay Harris

NATIONAL HOME Loans, the fifth largest British mortgage lender, expects to publish the offer document for its £13.3m takeover bid for Business Mortgages Trust by next week.

BMT, a commercial mortgages company, appears to be seeking the addition of a cash alternative to the £10.3m all-paper offer for its ordinary shares which was announced on June 5. It still has not responded to NHL's bid apart from urging shareholders to take no action.

However, Mr Tony Moir, NHL finance director, said yesterday: "Our offer is as stated. We have no plans to change it." NHL already owns 29.9 per cent of BMT's shares.

Moreover, the market prices of the two shares do not point to expectations of a higher bid. With NHL's shares at 104p, its two-for-three offer values BMT at 69.3p, against last night's price of 65p.

NHL published details of its 100p cash offer for BMT preference shares, worth £3m in total. It spelt out the premium over the pre-bid price and the fact that the preference offer was conditional ou success of the main bid.

ANH raises P&SN stake

ASSOCIATED NEWSPAPER Holdings, a subsidiary of Daily Mail & General Trust, has raised its stake in Portsmouth & Sunderland Newspapers from 5.05 per cent to 7.5 per cent.

The original holding was bought earlier this year from Mr David Sullivan, publisher of the Sunday Sport.

P&SN shares added 2p to 342p.

BA/Sabena link appears closer

By Michael Donne, Aerospace Correspondent

A POSSIBLE financial link between British Airways and Sabena, the Belgian airline, appeared to be closer yesterday with confirmation from Brussels that the top executives of the two airlines have held talks this week with Mr Jean-Luc Deheane, the Belgian communications minister.

Mr Carlos van Rafelghem, Sabena chairman and Sir Colin Marshall, BA chief executive, have been discussing such a link privately for some time, but this is the first time they have discussed it directly with the Belgian Government, which must approve any plans.

Unconfirmed reports have suggested that KLM, the Dutch airline, might also be involved, along with Luxair, the Luxembourg airline.

Sabena is one of the weakest airlines in Western Europe, and has been seeking a partner for some time.

Thos Locker improves to £2.18m

Taxable profits of Thomas Locker (Holdings) expanded from £1.92m to £2.18m in the year to March 31 1989.

Turnover was ahead 14 per cent to £36.05m (£31.69m). After tax of £784,000 (£772,000) earnings per 5p share worked through at 3.25p (2.59p). A maintained final dividend of 1.05p is recommended for an unchanged total of 1.425p.

Cadbury revives plans to increase borrowing levels

By Lisa Wood

CADBURY SCHWEPPES shareholders are being asked to approve a motion which would allow the confectionery and soft drinks group to increase its borrowing limits to around £1.7bn without changing its Articles of Association.

Cadbury recently failed to increase its borrowing limits to around the same level by changing its Articles of Association. This was because General Cinema, the US group which holds a 17 per cent stake in Cadbury, opposed the special resolution required to change the Articles. This resolution required the approval of 75 per cent of votes cast and Cadbury gained 71 per cent.

Sir Graham Day, Cadbury's chairman, said in the circular, that his company felt justified in reviving the plans because of the 71 per cent vote in favour of the original scheme.

The group's revised ordinary resolution will require the majority consent of shareholders.

Learmonth & Burchett drops 24% to £1.45m

AN IMPROVED second half boosted Learmonth & Burchett Management Systems, USM-quoted computer services group, but substantially higher development expenditure took its toll.

In the year ended April 30 1989 turnover rose 19 per cent to £12.78m (£10.76m) and operating profit to £3.45m (£3.02m). But development spending was up to £1.99m (£1.1m) which left the pre-tax profit at £1.45m, a 24 per cent reduction on the previous £1.9m.

Earnings fell to 7.9p (10.3p), but the directors are confident of a return to growth and are lifting the dividend from 1.7p to 2p, with a final of 1.4p.

Mr Rainer Burchett, chairman, said the UK had a strong trading year with profit, before tax and development costs, up 39 per cent and turnover increasing between 22 per cent and 34 per cent across the main trading areas: software, consultancy and training.

First half difficulties in the US were overcome with a turnround to profit (before development and intra group costs) of £186,000 in the second half. Elsewhere overseas, the recently established distributor network started to show significant returns.

London & Clydesdale doubled in first half

ALMOST doubled profits were achieved by London & Clydesdale Holdings, USM-quoted housebuilder and property developer, in the half year ended March 31 1989.

The directors said the increases in both numbers and margins anticipated in house sales at the beginning of the year had materialised. In particular, the Aberdeen market had improved after several poor years.

Turnover moved ahead from £8.6m to £9.14m and generated an operating profit of £868,000 (£749,000). With interest charges halved to £204,000, reflecting low borrowings, the pre-tax profit advanced 92 per cent, from £336,000 to £644,000. Earnings were 4.6p (2.4p) and the interim dividend is again 1.7p.

Commercial developments were moving ahead, although they would not make a major contribution this year. House sales continued to meet expectations.

Capital Gearing Tst

Net asset value of Capital Gearing Trust at April 5 was 239.9p (185.3p). A dividend of 0.3p (0.275p) is proposed.

UK COMPANY NEWS

Shades of Dallas in the Smithfield meat market

Nikki Tait takes a look at the long-running family feud surrounding Meat Trade Suppliers

THERE MAY not be too many shoulder-pads in London's Smithfield – but that has not stopped shades of Dallas from descending on Meat Trade Suppliers, a small sausage casing and butchers' sundries supplier headquartered in the meat market.

The combination of a boardroom split, complex family allegiances, unlocked property potential and a call for the removal of a director by a large City institution – M&G, Britain's biggest unit trust group – is the stuff which scriptwriters might drool at.

But for the company and its shareholders, the lengthy battle between different generations of the founding family over MTS's future has been a less-than-happy affair. Investors have been unable to trade since the shares were suspended in mid-March and, last week, finally learnt that no dividend would be paid in respect of the nine months to December 1988.

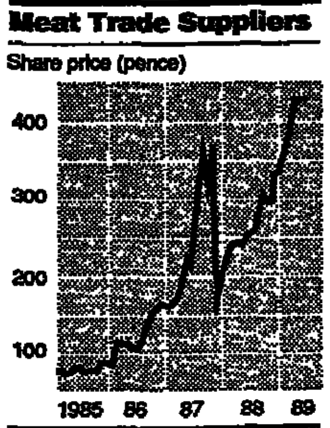
Perhaps their only – and quite significant – comfort is that some resolution to the uncomfortable situation does finally appear to be in sight.

The background to the situation is complex and rather sad. The company is very much the creation of Mr William Anstis, now in his 80s. M&G is seeking his removal, together with the four other board members, at an egm on Friday.

Still an indomitable presence in the company's Smithfield offices – the company's annual reports have variously discussed the merits of the birch, the inefficiency of the Post Office, and the mystery of youth unemployment – Mr Anstis started out as a retail butcher.

In the late 1920s he moved into the trading of butchers' sundries, and in the late 1940s, expanded further into sausage casings. This business came to dominate the group – accounting for over two-thirds of sales when MTS came to the market in 1963.

But for a small, undiversified company operating in a difficult industry, the 1980s have not been kind. Profits have steadily fallen from over £450,000 in 1981 to just £36,000 in the final nine months of 1988.



Yet, while the original business suffered, Meat Trade Suppliers began to develop potential "shell" appeal. After all, it owns freehold property in Smithfield – something of a developing area – as well as a distribution warehouse in Hayes and additional property in Stafford.

As rumours circulated, the shares rose from a plateau of under 100p to well over 400p. In March, the Stock Exchange finally requested a suspension at 430p, where the group was valued at £11.3m.

By then, however, the situation was acquiring an additional twist as differences within the Anstis family surfaced. Mr Anstis's daughter, Mrs Samantha Allan, is married to Mr Campbell Allan, a senior executive at British & Commonwealth Holdings and deputy chairman of Gartmore Investment Management. Just over a year ago, Mr Allan was brought on to the board, where his wife was already a director.

Mr Allan makes no secret of his subsequent impressions of the group: "The company was out of control – there were no financial controls, no forward planning," he states bluntly. Nevertheless, a month after Mr Allan's appointment, Dr Stuart Anstis – another of Mr Anstis's children – also joined the board, despite the fact that he lives in Canada.

The crunch came at the annual meeting last November. The upshot was that Mr Allan was confirmed by shareholders; Dr Anstis was not. And at a board meeting after the agm, the board voted to shift the chairmanship away from Mr Anstis senior. It passed instead into the hands of Mrs Allan.

This shift in boardroom power brought further developments. According to the Allan camp, previous approaches to the company had recieved short shrift from Mr Anstis. Now, with Lloyds Merchant Bank brought in as adviser, proposals were taken more seriously. One, in particular, carrying property implications, began to crystallise.

Again, however, problems emerged. Any listing particulars sent to shareholders in connection with a proposed deal would need the signature of all directors and, as a recent circular to shareholders put it, "an impasse has been reached between Mr Anstis and the rest of the board."

It was at this stage that M&G weighed in, in what can only be described as a highly unusual step for any institutional investor. The unit trust managers have been significant shareholders – currently owning 16.5 per cent – for well over a decade, and played a part at the November annual meeting. In an effort to get the company's future sorted out, they are now proposing the removal of Mr Anstis as a director.

However, whether this Friday's egm will actually push the issue that far is a very debatable point. Discussions between lawyers have ensued – hence Mr Anstis' reluctance to set out his side of the story – and the odds on a resolution ahead of the meeting appear fairly high.

This may be realistic. The voting situation is complicated by the fact that a further 15 per cent block of shares is held by a trust, whose beneficiaries are the Anstis' grandchildren, but whose trustees include both Mrs Allan and her father.

The Allan camp reckons that lack of unanimity among trustees allows this stake to be blocked from voting. If so, it claims its own support is then sufficient to outvote Mr Anstis and his three other children.

In that case, the painful and messy saga may finally grind forward

Meggitt pays initial £4m for Target Technology

MEGGITT Holdings, specialist engineering group, is paying an initial £4m for Target Technology and its associated company Target Technology Electronics.

The purchase terms for the companies, which specialise in the design, manufacture, and operation of aerial targets for low level air defence, close air defence weapon systems, remotely piloted vehicles and helicopters, include a performance related agreement pegged to the level of turnover in the 1989/90 year.

Mr Ken Coates, managing director of Meggitt, said the Target companies offer opportunities to penetrate the North American market.

The companies reported pre-tax profits of £1.6m on turnover of £4.7m for the year ended February 10 1989. Net assets were £1.25m. In April, Meggitt announced taxable profits for 1988 ahead by 29 per cent from £16.3m to £21.1m.

Reflex profit doubled

REFLEX Investments, the Dublin-based supplier and financer of IBM computer equipment which is quoted on the USM, reported pre-tax profits more than doubled from I£554,000 to I£1.27m (£1.1m) in the year to end-April.

Turnover rose 20 per cent to I£5.13m (I£4.28m) and after tax of £166,000 (£31,000) earnings per 5p share rose 77 per cent to 9.1p (5.13p). The directors are recommending a final dividend of 0.8614p making a total 1.3104p (0.562p) for the year.

BM Group sells two companies to Trelleborg

By Philip Coggan

BM Group, engineering, construction and building supplies company, has sold Braham Millar and Goodwin Barsby to the Swedish group Trelleborg.

Braham Millar was the original quoted business of BM until 1984, when a controlling interest in the company was acquired by the construction and aggregates group Beazer. Beazer businesses were then injected into Braham Millar by Mr Roger Shute, chairman and chief executive, and the company changed its name to BM Group. Beazer has since gradually reduced its stake to zero.

Both Braham Millar and Goodwin Barsby manufacture crushing and screening equipment for the quarry industry. Mr Shute would not reveal the amount paid by Trelleborg, though it constitutes less than 5 per cent of BM's net worth.

SHARE STAKES

ADT: Mr Michael Ashcroft has sold 526,616 common shares at an average 183p each.

Archer (A.J.) Holdings: Scottish Amicable Investment Managers now interested in 1.375m ordinary (5.95 per cent).

Cambridge Instrument: Mrs P.A. Gooding disposed of as a gift 84,000 ordinary leaving holding 6.828m (6.95 per cent).

Celtic Basin Oil: CM Pinder has increased interest to 40,305 ordinary shares (6.49 per cent).

Dares Estates: Scottish Amicable Investment Managers now hold 12.02m (6 per cent).

Ferguson Industrial Holdings: Scottish Amicable Investment Managers hold 1.95m (6.1 per cent).

Gabicci: CIN Industrial Investment has purchased 50,000 ordinary in bringing total to 1.238m shares (10.67 per cent).

Jones and Shipman: Trustees of Jones and Shipman Charitable Trust sold 25,000 ordinary at 175p each and now hold 1.489m ordinary (12.42 per cent).

Macallan-Glenlivet: Parsons and Company (Nominees) acquired 852,750 ordinary (1.7 per cent) making 5.665m (11.7 per cent).

Merivale Moore: the company has bought in a further 20,000 of its own ordinary at 495p per share.

Mersey Docks & Harbour Company: The Water Authorities Superannuation fund has bought 438,000 ordinary, bringing its total interest to 3.57m (5.9 per cent).

Minerals Oils and Resources: Strabul Nominees have cut holding by 500 to 203,121 shares.

Pegasus Group: Scottish Amicable Investment Managers now has under its management 344,038 ordinary (6.13 per cent).

Titon Holdings: National Westminster Bank now holds 566,000 (5.2 per cent).

Triplevest: Kleinwort Benson Investment Management in respect of discretionary managed clients holds 306,332 capital shares (5.08 per cent).

Wassall: Hanson Pension Trustees, an associate of Hanson, has bought 50,000 ordinary (0.3 per cent).

West Industries: Vista (UK) has acquired 2.09m ordinary at 30p apiece. The shares are registered in the name of Ditat Nominees (Edinburgh) and were acquired via a rights issue from Firstmeasure, with which Vista is acting in concert.

Yorkshire Television: Pearson has raised its holding to 7.03m (29.16 per cent) with the purchase of 114,317 ordinary.

Yule Catto: Kuala Lumpar Kepong Berhad acquired 150,000 ordinary and now holds 22.22m (27 per cent).

UK COMPANY NEWS

BSS profits expand by 21% to £12.24m

By John Thornhill

BSS GROUP, the distribution company which supplies industrial, heating, process and pipeline equipment, lifted pre-tax profits by 21 per cent from £10.12m to £12.24m in the year to March 31.

Turnover rose by 24 per cent to £130.06m (£105.25m). A final dividend of 10p will give 15p (12p) for the year. Earnings per share advanced by 21 per cent to 42.1p (34.9p).

Mr Ian Phillipps, chairman, said the results of the BSS companies - the group's original businesses - had been particularly good. BSS (UK) showed strong organic growth during the year and expanded its product range and network of distribution centres.

BSS had also decided to invest £2m in developing its computer facilities, which already help it to achieve next-day delivery on most orders.

According to the chairman, Manor, the building and plumbing supplies company bought in 1986, had been "a colossal success" after BSS had realigned its business and introduced more advanced information systems.

Two other businesses acquired in late 1987, AM Supplies and Ivco, were reorganised. But Mr Phillipps said they had not yet reached a satisfactory level of profit.

In the first two months of the current year, BSS said it had recorded strong performance figures and saw no sign of any slackening. "We have a strong product range and we are confident in our course."

● COMMENT

BSS rolls steadily along. The company has a stated policy of achieving a 20 per cent increase in annual earnings growth and that is what it has produced this year. It might be assumed that a tightening economy would put a dent in these ambitions in the future, but the good news for BSS, if not necessarily for the Chancellor, is that in the company's eyes the economy shows no signs of weakening. Anyway, any downturn will probably take several months to feed through and this delay may be enough to see BSS through the current year. Further out, contributions from Heatek, increasing market share and improving efficiencies in its existing businesses - jollied along by investment in information systems and the company's near-obsession with quality - will help to keep it buoyed up. Some, nevertheless, fear that a thinner economy will squeeze margins and foil BSS's plans for earnings growth. But, unless the downturn is particularly severe, at a prospective p/e rating of 9.5, assuming pre-tax profits of £14.5m, BSS would still seem to offer reasonable value.

Sturge shares rise on £30m forecast

By Nick Bunker

SHARES IN Sturge Holdings, the Lloyd's of London underwriting agency group, yesterday rose 14p to 254p after Mr David Coleridge, the chairman, forecast pre-tax profits for 1989 of about £30m – at least £2m above City analysts' highest forecasts.

The group also said it was planning to pay up to £6m to buy back more than 2.3m shares controlled by Mr Arthur Henry Bertram Grattan-Bellew, Mr John Parry and Mr Frederick Raven, who received the shares when Sturge bought the Bellew, Parry and Raven Lloyd's agencies last year.

Sturge's forecast showed that it was benefiting strongly from commissions earned from profits of two in particular of the 28 Lloyd's syndicates which it runs.

These are non-marine syndicate 210, run until 1988 by Mr Ralph Rokeby-Johnson, and aviation syndicate 960, run by Mr Brian Beagley.

Both syndicates have just declared their profits for what Mr Coleridge called the "extremely profitable" 1986 Lloyd's accounting year, when 210 made pre-tax profits of £35.8m and 960 made £34.7m.

On top of that, Sturge and its syndicates were reaping the rewards of the appreciation against sterling of the dollar, the principal currency for international insurance transactions.

The forecast came as Sturge announced pre-tax profits up 10 per cent at £3.84m for the six months to March 30. Earnings per share were 4.63p (4.1p) and the interim dividend is raised to 5p (3.25p).

Sturge always makes a full-year profit forecast at the time of its interim results. This is because while it only collects the bulk of its income in the form of profit commission in the second half of the year, it knows what the figures are going to be by the end of April, when Lloyd's syndicates submit their accounts to the market's central authorities.

Gardiner's founder sells up while first half profits rise 37%

By Andrew Hill

MR GEOFFREY Gardiner, the founder and former chairman of Gardiner Group, has placed his 19.4 per cent stake in the distributor of security products with institutions, and resigned as a director to pursue other commercial interests.

Gardiner, which bought Bridgend Group's security division two months ago for £9.6m, yesterday announced interim pre-tax profits of £1.06m in the six months to April 30, up 37 per cent on £774,000 made in the equivalent period.

Mr Gardiner, who brought the company to the market at the beginning of last year, will take with him Gardiner's technology division, part of the Bridgend acquisition.

He will pay about £250,000 for the business, which ties in with three of the 20 other companies Mr Gardiner helps run.

Gardiner's turnover in the first half increased from £8.83m to £10.2m, and gross margins rose slightly to 24 per cent.

Earnings rose to 1.67p (1.38p) and an interim dividend of 0.3p (0.25p) is declared.

Mr Yashar Turgut, Gardiner's managing director, said it would take six to nine months to integrate Bridgend's security division, which increased the group's UK branch network from 21 to 36.

He said further consolidation of the security product supply business in the UK would be difficult, but Gardiner might look to expand in Europe.

"In the UK, the distribution side is no longer really fragmented because you've got one major player – us – and then you have Ademco [part of Tunstall Group] and two or three small distributors," he said.

Last September, two other security groups – Automated Security (Holdings) and Scantronic Holdings – each acquired 20 per cent of Gardiner's equity. Mr Gardiner stepped down as executive chairman at the time, and reduced his shareholding from 67.5 per cent.

He has sold his 19 per cent stake for a total of £6.28m at 53½p a share, compared with yesterday's unchanged closing price of 56p.

● COMMENT

Two months on, the Bridgend deal still looks a sensible one for Gardiner. By taking out a competitor, Gardiner strengthened the spider's web of security industry cross-holdings, which already link it with ASH and Scantronic. Geographically (Bridgend was mainly in the south, Gardiner mainly in the north of England) the acquisition cannot be faulted; it should also improve Gardiner's buying power and gross margins. Integration and the installation of improved computer systems will take time, and the main benefits will begin to flow through in the year to October 1990. But assuming no gremlins emerge, the Bridgend deal could still boost Gardiner to about £3m before tax this year. That puts the shares on a prospective multiple of 15 – not unreasonable in the medium term with the prospect of expansion into Europe in the early 1990s.

Alphameric moves into the red

By Vanessa Houlder

ALPHAMERIC, the information systems and computer products manufacturer, yesterday announced a move into the red with a pre-tax loss of £1.29m for the year to March 31.

This result, which compared with a pre-tax profit of £4.64m last year, was worse than predicted in February when the company warned that it would make virtually no profit this year. Shares fell 17p to 100p.

The worse-than-expected performance was blamed on delayed orders for financial and retail systems. This compounded a general downturn in sales, which resulted in a 20.9 per cent fall to £23.75m (£30.03m).

Mr Douglas Craig-Wood, chairman, said the business was unlikely to make a profit in the first half although he was hopeful about the year as a whole. "We believe we are through the worst," he said. "We set great store by five months of upward order intake."

The order book total stood at £16m at the end of May compared with an equivalent of £11.7m a year before.

Sales of data broadcasting systems proved extremely disappointing with no major orders placed by retailers. A major order from Thomas Cook was cancelled and there were several deferrals of expected orders.

Mr Craig-Wood said that the data broadcasting business was now attempting to target other markets such as credit control systems and message services.

The vendors of PC Communications have announced that they will convert the balance of their convertible shares in Alphameric. On PCC's after-tax earnings of £415,000, the conversion will result in the issue of shares valued at £1.8m.

There was a loss per share of 5.67p, compared with last year's earnings per share of 19.62p. A reduced final dividend of 1p makes a total of 2p (3.5p) for the year.

● COMMENT

Given Alphameric's repeated over-optimism, erratic order history and appalling share price performance, it is hardly surprising that shareholders' patience is wearing out. Some analysts moot a break-up bid and even sympathetic observers suggest that the extreme volatility of its profits would be best accommodated within a larger group. But leaving bid hopes aside, some reckon that Alphameric has promise as a recovery stock. It is hard to predict Alphameric's profits this year with any confidence, but assuming it makes £3m, it is on a prospective p/e of 9. That rating can be justified on the grounds that its technology is impressive; it is broadening its customer base and there should be benefits from additional cost-cutting.

Sheraton director's pay doubles to £363,000

THE HIGHEST paid director of Sheraton Securities, the property group, more than doubled his salary from £164,000 to £363,000 in the year to March. The director is assumed to be Mr Peter Taylor, managing director, although he refused to comment yesterday.

During the same period, pre-tax profits grew from £11.27m to £23.16m.

Fully diluted earnings per share rose from 6.7p to 13.5p and net assets per share increased from 36.1p to 50.7p.

Camford

Markheath Securities has increased its stake in Camford Engineering from 24.2 per cent to just short of 26 per cent.

Sale of Thermal Scientific offshoots raises £9m for TI

By Clay Harris

TI GROUP, the specialist engineering company, has completed the disposal of peripheral activities of Thermal Scientific, the manufacturer of high temperature vacuum furnaces bought for £72.5m last September.

The latest sale of four companies for a total of up to £9m, part of which is deferred and linked to earn-out agreements, means that TI's proceeds from Thermal disposals has fallen just short of its £24m target. The proceeds include a property valued at £2m which is yet to be sold.

The companies sold were involved in plastic extrusion, production of synthetic polymers and manufacture of scientific instruments.

Uniplex Profiles and Killion Extruders, both located in New Jersey, were bought by their respective managements.

UK COMPANY NEWS

Listeria and salmonella fright leaves scar

Northern Foods up 10% as margins improve

By Lisa Wood

NORTHERN Foods, the Hull-based group, yesterday announced pre-tax profits of £85.3m for the year ended March 31, a 10 per cent increase on the previous £77.3m.

Northern, Britain's leading producer of ready-to-eat meals, estimated that the recent public scare over listeria and salmonella poisoning had cost it about £1½m in profits.

Earnings per share, at 27.43p, were up by 11 per cent on the previous year's 24.69p. The final dividend is 6.5p to make 11.25p, a rise of 13 per cent.

Mr Christopher Haskins, chairman, said:"We expect to achieve good sales and profit progress with the major retailers of fresh foods in the year ahead."

Group sales for the 52 weeks at £1.04bn were up by two per cent on the previous 53 weeks.

UK operating profits rose 15 per cent to £88.7m, and margins on sales increased from 7.6 per cent to 8.6 per cent.

The dairy group showed a 13 per cent increase in operating profit to £42.8m.

Sales of liquid milk were slightly down but Mr Haskins said profits improved as Northern achieved the benefits of investment in efficiencies and cost reductions through franchising.

Sales in the convenience foods group grew by 18 per cent to £200.9m with operating profits moving ahead 29 per cent to £13.2m.

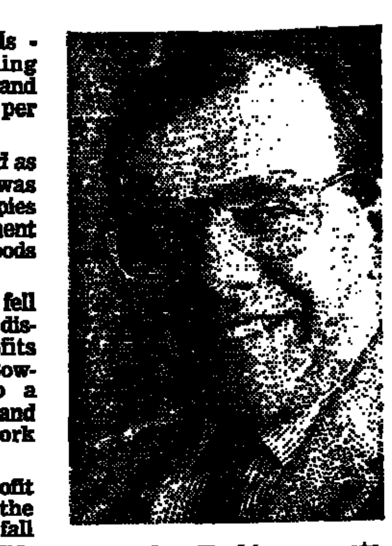
Sales of prepared meals - with customers including Marks and Spencer, Tesco and Waitrose were up by 45 per cent.

Pasta sales were described as "outstanding" and there was continuing growth in hot pies and flans. A £14m investment in new plant at Pennine Foods was underway.

Sales in the meat group fell by two per cent because of disposals but operating profits grew by 26 per cent with Bowyers "transformed" into a major profits contributor and an uplift in profits at Pork Farms.

In poultry, the good profit improvement reported in the first half was followed by a fall in the second, as the salmonella scare undermined demand. However, profits were ahead of the previous year.

In the grocery group operating profits rose by one per cent to £15.2m. Sales of Fox's Biscuits were ahead 13 per cent but were held back in the second half by capacity constraints at the Batley factory.



Christopher Haskins: expects to achieve good sales and profits with major retailers of fresh foods

● COMMENT

Northern's results were in line with market forecasts with the industry's food poisoning scares having only a limited effect. Sales of prepared meals continue to grow rapidly although margins have been held back by investment in new plant. Joint ventures may be started with Campbell's Soup in Germany and the US if Northern's recipe dishes are to foreign tastes. In the meat group there is to be further rationalisation in September with the closure of the Witney plant, and that could disrupt profits in the division. The pay-back on the large scale investment in biscuits should come through this year. Analysts, who expect further steady progress, are looking for between £95-£97m for the full year, giving a prospective p/e of 10.

Avon Rubber in $57m deal and makes cash call

By Clare Pearson

AVON RUBBER, the tyres and industrial polymers company, is paying $57m (£37.5m) for Michigan-based Cadillac Rubber and Plastics Group. The deal marks its first big move into US manufacturing and at the same time sharply reduces the share of tyres in its business mix.

Part of the consideration is being satisfied with the proceeds of a one-for-four rights issue at 500p. To provide the balance, Avon is making rapid use of the cash it raised last month through a tie-up with Sumitomo Rubber Industries of Japan, which took over control of its UK tyre distribution arm.

Cadillac, which sells almost all its products to the US car industry, is being bought on a historic p/e multiple of 15 - which Mr Tony Mitchard, chief executive, yesterday admitted seemed expensive.

But he said the purchase was a long-term strategic move to maintain Avon's position in the increasingly international automotive parts market, and also establish a US manufacturing base to serve other industries.

Mr Mitchard also warned yesterday that an 8 per cent wage award to UK employees meant Avon's current year profits outlook had worsened since it reported interim pre-tax profits of £6.08m, down from £7.69m, on May 5.

Analysts said after this news they were cutting their full year forecasts to about £15m, against £16.3m in 1988. The Cadillac purchase was, however, welcomed and the shares closed 5p lower at 589p.

The Cadillac acquisition furthers Avon's aim of lessening its dependence on tyres. Taken together with the May sale of 70 per cent of Motorway, the loss-making tyre distribution company, that product's share of the business is now reduced from about 60 to 25 per cent.

Cadillac last year made operating profits of $6.7m on turnover of $70m. Avon's sales in the US through exports and joint-ventures amounted to about $25m.

SP Tyres, the UK subsidiary of Sumitomo Rubber Industries, has paid £16.54m for control of Motorway and also invested £5.7m in Avon's tyre manufacturing business.

Vosper Thornycroft sails close to the wind with £10.3m

By John Ridding

VOSPER THORNYCROFT Holdings, the warship builder, announced pre-tax profits of £10.3m for the year to March 31, in line with forecasts but lower than the £11.28m achieved in 1987-88.

The earlier period, however, included a £2.75m exceptional credit resulting from the negation of a provision made in 1987 to cover the gap between developing and selling the Sandown class minehunting vessels. Excluding exceptional items, the pre-tax increase was 21 per cent.

The latest results included an unspecified provision concerning problems with a Middle East contract. Vosper said financial difficulties in the country concerned had meant that recent stage payments for a contract had not been received.

Mr Roy Withers, chairman, refused to specify the amount of the provision but said that the total contract was in the region of £20m, that over half the payments had been received, and that there would be no further provisions. Analysts thought that the amount was probably around £300,000.

Turnover increased from £80.11m to £93.02m and earnings per share rose from 19.1p to 21.6p. A final dividend of 5.75p gives a total of 8.5p. In the previous year, there was a special dividend of 0.625p following Vosper's March flotation.

Orders increased to over £500m, the bulk of which were accounted for by a contract, concluded in November, from Saudi Arabia for six Sandown class craft. The first vessel will be launched on August 2 and payments will follow a fairly constant stream until final completion.

The other main order is the contract for four similar vessels for the Royal Navy.

The combined contracts mean that Vosper is currently operating near labour capacity. During the year, the labour force was increased some 10 per cent to 2,000 and further orders will require new recruitment.

The non-shipbuilding activities maintained their level of about one third of profits and turnover. Vosper said that they were still committed to expanding into other engineering with the aim of of deriving 50 per cent of earnings from these activities.

● COMMENT

Vosper continues along the steady course it has followed since privatisation in 1985, accumulating a mass of orders in the process. Work is guaranteed until the middle of the decade, and few British shipbuilders could boast the same. Further big contracts, from Brunei and Kuwait, may also be in the offing. The reason behind the performance is Vosper's success in carving a lucrative niche in glass-reinforced plastic shipping. As a result, it has been protected from the cut-throat competition which has sunk many steel-hulled constructors both at home and abroad. The next few years will see a steady flow of earnings as the vessels for the two main orders are finished with a skew in receipts towards the final completion date of each vessel. This makes for another solid, if unexciting year and there should be another useful contribution from the non-shipbuilding businesses and, in particular, from systems for Type-23 frigates. With cash holdings of £27m, £7m excluding customer advances, acquisitions can be expected to boost this division further. Overall, pre-tax profits of £12m can be expected, placing theshares on a justified prospective multiple of just over 10.

Spanish buy costs Longman £1.9m

By Edward Sussman

Longman, the publisher owned by Pearson, has agreed to pay an initial Pta 380m (£1.9m) for 98 per cent of Editorial Alhambra, a Madrid-based educational publisher. Pearson also owns the Financial Times.

Alhambra is Longman's first near 100 per cent acquisition in continental publishing. Previously, it held-partial stakes. Mr Michael Wymer, Longman's deputy chief executive, said the purchase provided "a strong base on which to build a substantial publishing business in Spain" and was part of Longman's "commitment to expansion in Europe".

In addition to the initial consideration, to be paid over five years, Longman may pay an additional Pta 250m depending on profit performance between 1990 and 1993. Alhambra's sales have been about Pta 1bn a year but it has only been slightly profitable.

Hawthorn Leslie reduces ECT Cellular payment

By John Ridding

HAWTHORN LESLIE, the USM-quoted industrial holding company, is reducing by £2.63m its payment for ECT Cellular, a London car telephone service provider, which it acquired last June.

Under the original terms Hawthorn was to pay £11.25m, to be satisfied by the issue of ordinary and preference shares. The latter, representing £5.25m of the payment, were to be redeemed in two stages, yesterday and in June 1990.

However, following the failure of ECT to achieve warranted pre-tax profits of £1.5m for the year to March 31 1988 and the existence of bad debts, Hawthorn took a provision in its accounts for the year to the end of December 1988 and initiated a claim for compensation.

Following the settlement of the claim, which was announced yesterday, the vendors of ECT are giving up their entitlement concerning the redemption of the second tranche. In addition, they will not receive any preferential dividend from these shares.

Mr Remo Dipre, Hawthorn's chairman, said: "The situation has been resolved to our satisfaction." He added that ECT, along with the company's other cellular telephone businesses, was currently trading well.

Takeover Panel considers alterations to City Code

By Philip Coggan

THE TAKEOVER Panel said yesterday that it was considering changes to Rule 35 of the Takeover Code which limits offerors from making a further bid for 12 months after their original offer has failed.

The change is likely to include a requirement for those who make conditional offers, such as the current approach by Mr Asher Edelman to Storehouse, the retail group, to be subject to the 12-month rule. In other words, if a conditional offer is withdrawn, a predator would be prohibited from making a full offer for 12 months.

The Panel is also considering a series of suggestions made by the Confederation of British Industry about changes in the code.

Meanwhile, the Panel is talking to the advisers of both Storehouse and Mr Edelman about whether the latter should clarify his intentions. Last week, Mr Edleman wrote to the Storehouse board saying he would offer 185p per share on several conditions, which included a recommendation from the board and the disclosure of financial information.

US decision expected on break-up of Sea Containers

By Andrew Hill

A US JUDGE should decide today whether to slap a preliminary injunction on the Anglo-Swedish break-up bid for Sea Containers, the Bermuda-registered owner of Sealink British Ferries.

Late on Monday night, Judge John Garrett Penn of the Washington DC district court renewed a temporary restraining order preventing Tiphook, the UK container rental group, and Stena, a privately-owned Swedish ferry operator, from pursuing their $824m (£541m) cash bid for Sea Containers.

The order has already been in place for a week and was extended for two days pending a definitive ruling on Sea Containers' attempt to get a longer-lasting injunction.

While the progress of Tiphook and Stena's bid is frustrated, Sea Containers is exploring alternatives to the hostile offer.

They include asset or equity sales, a leveraged buy-out, sale of the whole company to a "white knight" counter-bidder, or a recapitalisation of the group.

Purchases help Wardell Roberts

Acquisitions helped Wardell Roberts, a Dublin-based tea and coffee merchant and food distributor, report pre-tax profits up 37 per cent from I£1.19m to I£1.63m (£1.4m) for the year to end-March.

Turnover of the USM-quoted group was 43 per cent higher at £28.62m (£20.05m) and earnings per share came out at 8p (5.8p). The proposed final dividend is raised to 1.53p for a total of 2.53p (2.3p).

ANNUAL MEETINGS

Interest rates yet to have impact on Mecca

The present high interest rates were not yet having much effect on trading, Mr Michael Guthrie, chairman of Mecca Leisure Group, told the annual meeting. He added that there had been a good start to the year but warned that the company was not immune to the poor performance of the UK economy.

The staff of Pleasurama and Mecca had combined successfully, he said.

Bentalls cautious

Bentalls' shareholders were told at the annual meeting that the company was continuing to keep a tight rein on expenses in the light of the recent interest rate rise.

In his annual statement, Mr Leonard Bentall, chairman, mentioned that the company was unlikely to have a buoyant year if interest rates remained high.

In September, Clarence Street, the main shopping street in Kingston-upon-Thames, is due to be pedestrianised which should benefit the company.

The new department store was still on stream to open in the second half of 1990, to be followed two years later by the shopping centre from which the company will receive 23.59 per cent of the income.

Silentnight on target

Speaking at the agm, Mr Christopher Burnett, chief executive of Silentnight Holdings, told shareholders: "While I expect first half results to be in line with last year, there should be an improvement in the second half, subject to no significant further decline in trading conditions".

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Alphameric ....fin	1†	-	2.5	2	3.5
BAA ....fin	5.5	-	4.25	9	7.25
BSS Group ....fin	10	-	8	15	12
Capital Gearing ....fin	0.3	-	0.275	0.3	0.275
F&C Smaller Cos ....fin	0.9	-	0.8	1.3	1.14
Gardiner Group ....int	0.3†	-	0.25	-	0.75
Learmonth § ....int	1.4	Aug 31	1.2	2	1.7
Locker (Thomas) ....fin	1.05	-	1.05	1.425	1.425
Ldn & Clydesdale ....int	1.7 §	July 25	1.7	-	5.7
Mercury Asset ....fin	11.5	July 12	9	15	12
Northern Foods ....fin	6.5	-	5.75	11.25	10
Racal Elect ....fin	4.55†	-	3.37	6.105†	4.455
Racal Telecom ....fin	0.7	Aug 15	-	0.7	-
Sturge Hlds ....int	5	Sept 4	3.25	-†	10
Vosper Thorny ....fin	5.75	-	0.625‡	8.5	0.625
Warburg (SG) ....fin	8.8	July 12	8	12.5	11.5
Wardell Roberts§ ....fin	1.53♣	July 28	1.4	2.53	2.3

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ¶Third market. ‡Special payment. †Total of 15p is forecast. ♣Irish pence throughout.

TECHNOLOGY

Eagle eye

The hidden giant shares some of its secrets

Louise Kehoe talks to the new president of IBM about the company's hitherto veiled strength in semiconductors

Jack Kuehler, the newly elected president of International Business Machines, does not mince his words. "We are the biggest producer of semiconductor devices in the world," he states, shedding the coyness with which IBM has long sheltered its semiconductor production operations.

Recognised world-wide as "Big Blue", the leader of the computer industry, IBM is also a hidden giant in the chip world. At its six semiconductor plants in the US, Japan, France and West Germany, IBM produces a great variety of advanced semiconductor devices, mostly for its own computer products.

As a "captive" chip maker, IBM's semiconductor operations are less visible than those of the merchant chip suppliers. Within industry circles, however, IBM's powerful technological, economic and political influences are well recognised.

According to industry estimates, the "if sold" value of IBM's semiconductor chips ran to more than $4bn last year. IBM dwarfs other US chip makers and is comparable in size to Japan's largest semiconductor producers, NEC, Hitachi and Fujitsu.

Because IBM sells few of its chips to outsiders, it is not a direct competitor to other manufacturers. Rather, it has become a backstage leader in the US industry and has championed the cause of the US semiconductor industry in its struggle to maintain international competitiveness.

"We really want to help the US semiconductor industry," Kuehler stresses. "We want to help as a good citizen and we want to help because we depend upon them too."

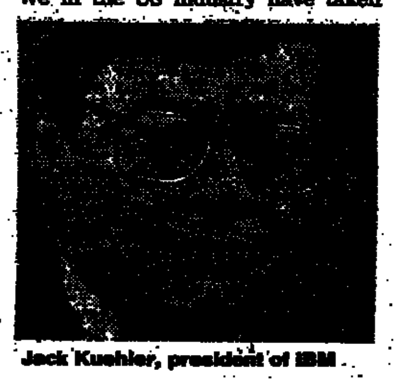
IBM has played an active role in the formation and operation of Sematech, the US semiconductor industry consortium aimed at reclaiming world leadership in chip manufacturing technology. Among IBM's contributions to Sematech has been the donation of its four megabit (Mbit) dynamic random access memory (D-Ram) chip design.

The company is also seeking support for the formation of another industry consortium aimed at developing a new generation of X-ray lithography, the photographic-like process used to create miniature circuit patterns on silicon chips. "Everyone knows that somewhere down the road today's light and electron beam approaches will no longer provide the lithography technology that is required," says Kuehler.

Although these techniques have allowed chip makers to reach sub-micron (millionth of a metre) feature sizes on the latest generation of semiconductor chips, a switch to shorter wavelength radiation sources will be required at some stage. At its East Fishkill semiconductor manufacturing site, in New York state, IBM is installing a $250m X-ray storage ring to develop and refine X-ray lithography techniques.

"We have decided that it would be appropriate for IBM to share this resource," says Kuehler. IBM has invited other US companies, understood to include several of the largest chip makers, to join the consortium. Participants would be required to pay only the incremental costs involved in their use of the IBM facility. "We believe that with the participation of other companies the knowledge pool will be greater and the end result will be faster advancement of the state of the art."

Although industry consortia have become a popular approach to research and development in the US, there is little history upon which to judge their efficacy. "Japanese companies rely heavily upon consortia. We in the US industry have taken



Jack Kuehler, president of IBM

some time to come around to this — to admitting that what we have done to date is not leading us to the most competitive scenario," says the IBM president.

The X-ray lithography proposal is the latest in a series of IBM actions aimed at strengthening manufacturing technology in the US semiconductor industry. At its US D-Ram plant in Vermont, IBM has practised a form of "affirmative action" towards US equipment suppliers. "More than 90 per cent of the tooling and test equipment at our state-of-the-art D-Ram facility is non-Japanese," says Kuehler.

"There are many US tool manufacturers that are very good that sometimes need a little help. We help them. In some cases they just need the financial support of a big buy. We do that. We must keep them healthy, we depend on them."

IBM's keen interest in the well-being of the US chip industry is also motivated by the fact that most of the large Japanese semiconductor producers from which it buys chips are its toughest competitors in the computer market.

On the trade issues that have engulfed the US semiconductor industry over the past few years, IBM has been a strong supporter of the US companies' efforts to open up access to the Japanese market.

As a semiconductor purchaser, however, IBM opposes measures such as the Commerce Department's system for fixing "fair market value" prices for imported Japanese D-Rams. The system was designed to prevent the "dumping" of Japanese memory chips in the US and was put in place to implement the 1986 US-Japanese Semiconductor Trade Agreement.

"The agreement is due to end in 1991 and we think it should. One of the principal intents was to prevent dumping and this succeeded. To retain an organisation that worries about pricing and tariffs is not the best use of Government time. If that system creates artificially high prices that American manufacturers have to pay, it may advantage one sector of the US electronics industry while damaging the competitiveness of another," says Kuehler.

IBM is playing a leading role in forming a high-powered computer industry lobbying group. The main focus of its activities in Washington will be to avert protectionism and to steer the Government towards addressing issues that have a negative impact on the international competitiveness of the US electronics industry.

IBM's largest chip plant is in East Fishkill. With half a million square feet of production and administration space and 10,700 employees it is probably the biggest chip plant in the world. It is here, close to its Armonk headquarters, that IBM makes its most advanced chips, the devices that power its mainframe computers.

Every stage of the process of semiconductor production is performed at East Fishkill, from the "pulling" of silicon ingots to make wafers, through chip fabrication on ultra-clean, highly automated production lines to the packaging of chips into modules ready for shipment.

East Fishkill is also the site of IBM's latest and most ambitious project, the Advanced Semiconductor Technology Center, where the company aims to develop a new generation of technology.

Clearly, IBM has the resources to make all the semiconductor chips that it needs. Instead, it turns to outside sources for a significant portion of its requirements.

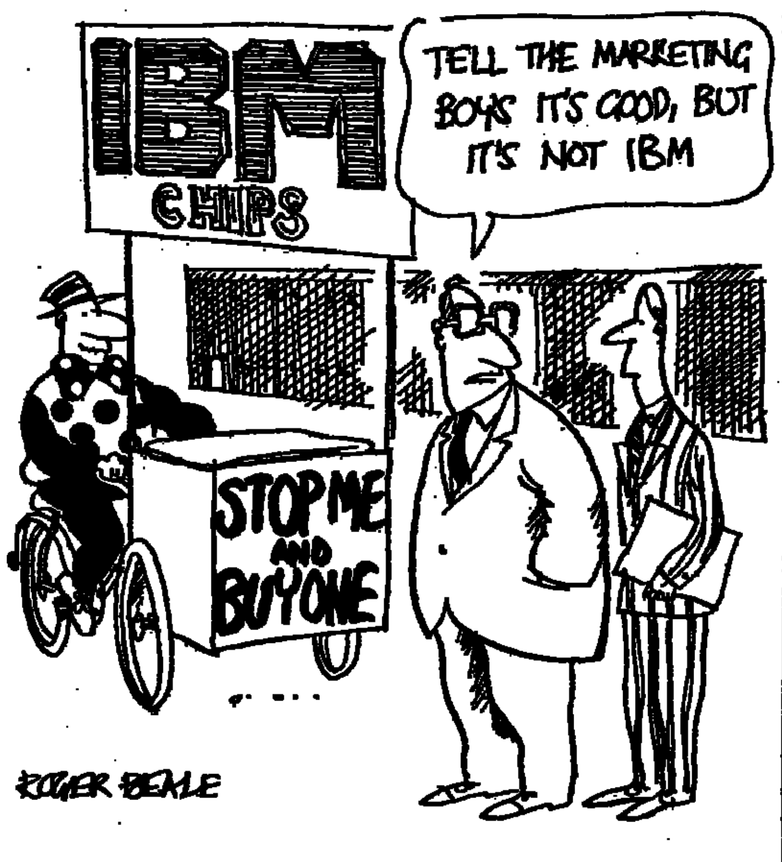
"Generally, the things that we develop and manufacture are the chips that we conclude have unique leverage for our products or involve unique technology advances that we cannot buy," says Kuehler. For example, in East Fishkill IBM produces its bipolar logic chips, packaged in unique multi-chip modules, for use in its high-performance mainframe computers.

Yet when it comes to D-Ram chips, the ubiquitous data storage devices used in all types of computer, IBM takes a different approach. The company meets about half of its requirements from D-Rams produced at its plants in the US, France and Japan, while purchasing the remainder from merchant suppliers.

"We view D-Rams as a strategic commodity," explains Michael Attardo, president of IBM's general technology division. He says the ability to make D-Rams is particularly important because "the people we are buying them from are often our competitors." D-Rams are also seen as a technology "driver". The process technology used to make them leads that for other types of chip by 18 months to two years.

IBM's aggressive D-Ram development programme provides a glimpse of its semiconductor technology strength. Currently in large volume production at IBM plants are 1 Mbit D-Rams, the present generation of memory chips. The plants have already, however, begun supplying production quantities of 4 Mbit D-Rams to their "customers", the company's computer systems manufacturing groups, placing IBM in a world leadership position.

"And we just got our first prototypes of our 16 Mbit D-Rams," Attardo says. While not fully functional, these examples of the next-but-one generation have working memory cells and logic.



He predicts that 16 Mbit D-Rams will become high volume products by 1993, demonstrating the relentless pace of semiconductor technology progress. Already, IBM has begun development work on the 64 Mbit generation.

"To be competitive we cannot afford to wait until the development of one generation is complete before starting another," Kuehler explains. Neither can IBM wait until the chip design is complete before constructing a new fabrication line for the next generation of chips. "We start the fabricator about half-way through the development cycle, so typically you will find two generations of chip development and fabricators in various stages of investment and staffing and building."

Last year, IBM is estimated to have poured $550m into new semiconductor plant and equipment, plus $800m on research and development.

Rising production costs pose a dilemma for IBM. Should it capitalise upon its huge semiconductor investments by entering the merchant market?

Any such move would be a radical departure. Currently, its chips are not designed to be commercial products. For IBM, staying ahead on the semiconductor technology curve is only a means toward the end of producing better computers.

"We optimise performance at the 'box' level, not at the silicon level," says Attardo. For example, IBM's 1 Mbit D-Ram is more expensive to produce than those sold by merchant chip makers, but it is faster. "We spend a little more on the silicon to gain a competitive advantage at the systems level."

Yet IBM is tempted to test its semiconductor strength on the open market. "The advantage of selling some of our chips might be that we would find out if our technology is as competitive as we think it is," says Kuehler. "We also ask ourselves: if people are going to buy semiconductors, then wouldn't we rather they bought from us?"

The disadvantage is that if IBM became successful in the semiconductor market, it might be forced to make even heavier investments to expand its chip production. "The question is do you spend more money and hire more people to participate in a market that is not known for high profit margins?"

Currently, IBM is operating a pilot programme in which it sells a limited quantity of high-performance chips to a few outside customers. "Where is that leading us? We haven't yet decided," says Kuehler.

In the US electronics industry, however, IBM may be the only company with the resources even to contemplate such a decision. Semiconductor manufacturing "is becoming a game for giants," says Attardo. With the exception of IBM, most of those giants are Japanese.

A lime kiln that eases the pressure on forest

A NEW kiln operating in Malawi's Chenkumbi Hills is not only producing better quality lime, but also saving trees.

The Zimbabwe office of the Rugby-based Intermediate Technology Development Group (ITDG) was asked to design the kiln by Malawi's Ministry of Forests and Natural Resources. The aims were to produce lime more efficiently, to increase quality to the standard required by the country's sugar industry and to reduce timber consumption.

In the traditional method, limestone and fuel-wood are piled into a trench kiln in alternate layers. Firing is irregular and combustion efficiency only 11 per cent. Most producers fire only one or two batches a year, each making about 50 tonnes of lime hydrate.

ITDG designed a vertical shaft kiln, in which the limestone and wood are again placed in layers, but the fuel burns at a more regular rate and heat is better distributed. John Spiropolous, an ITDG official, says that an increase of combustion efficiency to 36 per cent has led to a fuel-wood saving of 55 to 60 per cent.

The new kiln uses plantation wood instead of older timber, which the traditional technology cannot do. This has eased the pressure on local forest. "Between 8,000 and 9,000 hardwood trees a year will be saved in the Chenkumbi Hills area alone," says Spiropolous.

Costing about £2,500 and built of local materials, the kiln operates continuously and produces 2.5 tonnes of lime a day, consuming 1.56 tonnes of wood and employing 37 people per 24 hour day. The unit cost of production is 2.13 Malawi kwacha (about 50p) compared with 2.65 kwacha for the older operation.

The improved process delivers 50 per cent available lime instead of 40 per cent, and the product is suitable for agriculture and construction. But more work needs to be done to reach sugar industry specifications. At present the Malawi sugar industry imports its requirement of 3,200 tonnes of lime a year from Zambia.

John Madeley

TECHNOLOGY MARKET

COMMODITIES AND AGRICULTURE

Collapse of coffee talks triggers price plunge

By David Blackwell

WEARY DELEGATES to the International Coffee Organisation were flying home yesterday with little to show for eight gruelling days of negotiation on the future of the coffee pact.

The talks collapsed in the early hours of yesterday morning without a vote being taken on two separate proposals for extending the agreement. Prices tumbled in New York overnight and in London yesterday as the prospect loomed nearer of a free market in coffee from the end of September, when the current agreement runs out.

The September contract in robusta coffee on the London Futures and Options Exchange (Fox) closed at £1,065 a tonne, a fall of £123 on the day.

Delegates will return to London on July 3 to vote on the two proposals which remain on the table, and also to vote on whether the agreement should be extended without economic clauses. The proposals came from Brazil, Colombia, the African robusta growers and the EC on the one hand, and the US and so-called "other mild" producers on the other hand.

The key to the failure of this special ICO session appears to lie with the realignment of the factions.

In previous discussions on the future of the agreement, the producers were ranged against the consumers. But in the middle of last week both sides divided. The US, the biggest consumer, started to support the "other milds" (mainly Central American arabica growers), who insisted that they would accept an extension only if export quotas were redistributed at the same time; the EC joined forces with Brazil and Colombia, the two biggest producers, who wanted more time to sort out market allocations.

The US, which had originally threatened to boycott the talks, insists that a new coffee agreement has to be designed to bring more top quality arabica coffee onto the world market. But other producers would have to give up some of their market share to accommodate this.

Brazil, the biggest producer, has been adamant that it will not relinquish any of its 30 per cent share of the market under the export quota system, by which the ICO aims to stabilise world prices.

Colombia, which relies on coffee for about a third of its export earnings, worked extremely hard to find a way forward and was particularly bitter about the collapse. Mr Jorge Cardenas, chief of the Colombian delegation, put the blame firmly on the US and the "other milds".

"I only hope they will not feel too sorry once the realities of a free market confront our debt ridden and weak economies," Mr Cardenas said.

Analysts can now see little hope of anything emerging to support world market prices – yesterday's cut in the ICO export quotas did nothing to stem the fall in prices, which continued in New York.

Roasters, who have been holding back while waiting for the outcome of the talks, are not likely to buy unless they have to. "If I were a roaster I would continue living from hand to mouth as long as I could," said one analyst yesterday.

Meanwhile the Brazilians and Colombians are hoping that the adjournment until July 3 will serve to concentrate minds, particularly given yesterday's price fall, so that a last minute deal can be reached.

"The chances are slim," said Mr Lindenberg Sette of the Brazilian delegation yesterday, "but one cannot give up."

THE INTERNATIONAL Coffee Organisation yesterday cut its export quotas by a nominal 1.5m bags following a fall in the 15-day average indicator price below 115 cents a lb. The cut will take effect in the July/September quarter as two cuts have already been applied in April/June. Only the proportion of the cut applying to robusta coffee will be enforced because the 15-day indicator for arabica coffees remains above the 130 cents a lb trigger level.

MacGregor plans 'cattle madness' controls

By Bridget Bloom, Agriculture Correspondent

BRITAIN IS proposing to introduce further measures to control the risk of bovine spongiform encephalopathy – the so-called "cattle madness" disease – from infecting the human food chain.

Mr John MacGregor, the Minister of Agriculture, announced yesterday that he wants to ban the use of certain sorts of offal from all slaughtered cattle, whether or not they have BSE. Already, all animals suffering from the disease must be slaughtered and the carcasses incinerated.

The offal, which includes brain, spinal cord, thymus, spleen and tonsils, would have to be stained in the slaughterhouse and disposed of.

The Government's proposal comes after considerable pressure from the Labour party as well as veterinary and some farming organisations. The ban is likely to be imposed following a short consultation period with interested parties.

The move illustrates the Government's concern about the rapid spread of BSE, which apparently remains confined to Britain, was first identified only in late 1986 and whose origins still remain a mystery.

At the end of last week, 5,063 cases had been notified on 3,373 farms, compared with 3,745 cases on just over 2,000 farms at the end of March.

A government-commissioned report by Professor Sir Richard Southwood published in March suggested that BSE may come from cattle feed which contains the remains of sheep suffering from scrapie, a brain disease. Scrapie, known for 200 years, was not thought to be transmissible to cattle or humans.

Yesterday Mr MacGregor said the scientific evidence was still that the danger of humans being infected was remote. His decision to ban the offal which might carry traces of the disease indicated that he wanted to be "ultra-safe".

The Southwood report had insisted that such offals should not be used in baby food, but had not specified any wider ban. Mr MacGregor said yesterday that it had been established that baby food manufacturers did not use such offal, while the Bacon and Meat Manufacturers' Association, representing most UK meat manufacturers, believed that none of their members used the offal anyway.

Officials confirmed yesterday that while the rejected offal would have to be sterilised, it could then be used as a component in poultry or pig feed, though not for feed for cattle or other ruminants.

Fish farm output 'could double'

By Bridget Bloom

FISH PRODUCTION from aquaculture, or fish farming, could double in the next ten years and amount to 25 per cent cent of the world's supply of fish, according to estimates by the UN's Food and Agriculture Organisation.

Aquaculture has seen particularly strong growth in certain northern, industrialised countries over the last few years, and could, according to a new report from the 22-member Organisation for Economic Co-operation and Development, help make up for the very slow growth of only some 0.3 per cent a year in traditional fishing.

According to the OECD one of the principal reasons for the growth in aquaculture is that private investors have been attracted into it by high rates of return. Production in OECD members is expected to increase substantially.

Today's high value "farmed" fish, principally trout and salmon, will be followed by halibut and turbot and later by lobster, the report says. Research on species such as cod has also shown some success.

However, the OECD report points to one potentially constraining factor: the continued availability of fish meal, the main source of feed for farmed fish. "Fish meal is an exhaustible resource and at present is fished in quantities close to what is possible", the report says. Further demand would be likely to push up prices, adversely affecting rates of return.

Asia is currently the major source of farmed fish and crustaceans, with Japan accounting for some 1.2m tonnes of an estimated world production of 10m tonnes. Elsewhere in the OECD, aquaculture currently accounts for 41 per cent by value of total fish production in France, 34 per cent in Norway and 18 per cent in the US.

In Britain, aquaculture has developed rapidly over the last decade, with a turnover of £65m in 1986, equivalent to nearly a fifth of total fish landings by UK vessels. It is expected at least to double by 1991.

According to the report there are some 900 fish farming businesses operating in the UK on about 1,400 sites and employing about 3,000 people, mainly full time. The industry is rurally based and is making a significant contribution to areas of high unemployment, like the highlands and islands of Scotland. Salmon and trout account for 90 per cent of current production.

For the future, the UK has extensive waters suitable for Atlantic salmon production which if developed would be capable of generating an output in excess of 200,000 tonnes. Output from existing farms was some 25,000 tonnes last year.

*Aquaculture. Developing a New Industry: OECD, Paris.

Farming poses threat to wild salmon

By James Buxton, Scottish Correspondent

THE THREAT to wild salmon posed by farmed salmon which escape from their cages in the sea is the most important issue being discussed at this week's annual meeting in Edinburgh of the North Atlantic Salmon Conservation Organisation.

The large numbers of escaped salmon from the burgeoning salmon farms of Norway, Scotland and other countries could damage the genetic strains of wild salmon and expose them to disease, Nasco believes. Governments of all countries with Atlantic salmon, including the Soviet Union, the US and European states, are members of Edinburgh-based organisation, whose functions include setting quotas for high seas salmon fishing.

"The wild salmon has developed its genetic strains over a period of 10,000 years since the last ice age," said Dr Malcolm Windsor, the organisation's general secretary. "Every salmon river has its own unique race of salmon, adapted to the river's characteristics. Fish from different rivers mix when they migrate across the Atlantic to the Faroe Islands or Greenland but each fish finds its way back to its own river after migrating."

Now, however, reared fish were escaping in their "tens of thousands and hundreds of thousands" from fish farms, he said. Fish can escape through negligent management, when cages are wrecked by storms or when they are tampered with by thieves. Farmed fish were being bred for different genetic characteristics, such as tameness and ability to grow fast. Some of these escaped fish were migrating and returning to salmon rivers.

The organisation suspects that these fish are inter-breeding with wild salmon and fears that this could have a degrading effect on wild fish strains. It was possible that wild strains could collapse because of inter-breeding with farmed fish. Another danger was that wild fish could become more vulnerable to diseases and parasites.

In Norway 30 salmon rivers had lost their entire stock over the past two to three years because of parasites on fish introduced from a hatchery that bred salmon from the Baltic.

Nasco will this week discuss how to obtain firm scientific evidence about the behaviour of escaped salmon and the dangers they pose to wild salmon. It will also consider possible steps to protect wild salmon strains.

These might include stopping fish farms from rearing fish from rivers many miles away from the farms; improving the security of salmon cages in the sea; and establishing zones free of aquaculture.

US expects smaller wheat crop

By Deborah Hargreaves in Chicago

THE US winter wheat harvest is expected to be 10 per cent lower than last year's crop after widespread drought in the farm belt, the US Department of Agriculture estimates.

In a report released late on Monday, the department forecast a total winter wheat crop of 1.41bn bushels, a drop from last year's 1.56bn bushels and the lowest harvest for 11 years.

The latest estimate was down from its forecast of 1.43bn bushels a month ago and came in spite of some good rainfall in major wheat growing states of Kansas, Oklahoma and Texas. Wheat in these states suffered wind and frost damage this winter as drought-depleted snowfall was not enough to insulate them from storms.

The report injected a little strength into Chicago's grain markets yesterday since the latest wheat estimate was lower than most traders had predicted.

Grain futures on the Chicago Board of Trade were higher across the board. "It's not just the report, there's a lot of shortcovering and a bottom-picking type of buying," commented Mr Vic Lespinasse, who trades grains for Dean Witter Reynolds.

The grain market has largely accounted for the damage to the wheat crop in the last few weeks and the USDA's estimate is not likely to add much long-term support to prices. Traders are now turning their attention to this summer's maize and soyabeans crops.

It is still to soon to tell what will happen to the maize and soyabeans that have only just been planted. "Tell me what the weather is going to do in July, and I'll tell you whether corn (maize) will go up or down," says Mr Dan Markey, president of commodities firm, Agri-Analysis, in Chicago.

July is the main growing season for both maize and beans, when favourable weather is crucial to the success of the crop. It looks very unlikely that this summer will repeat last year's drought when crops were severely depleted, but high rainfall or hot weather during the critical growing weeks could still inflict serious damage.

So far, the two feed crops have got off to a good start with adequate spring rain, but still not enough to replenish sub-soil moisture reserves. "The spring pattern has broken the drought so far, and the near-term price outlook for corn is not that rosy," says Mr Brad Fink of Henning and Krajweski trading house.

The major uncertainty currently hanging over the market is the unrest in China. On Monday, China booked another 100,000 tonnes of US wheat and traders are unsure of how much the country intends to buy. This could keep wheat prices volatile for some time.

• Senate Agriculture Committee Chairman Patrick Leahy (D. Vermont) said his panel would begin work on a drought aid bill next month, reports Rueter from Washington.

He said the committee would hold a hearing on drought legislation on July 13 and begin writing a Bill on July 19. "As I said before, when I move, I move fast," Mr Leahy added.

Oversupply warning to coal producers

By Maurice Samuelson

INTERNATIONAL STEAM coal suppliers will be warned today that they could face a growing crisis in their business because of changes occurring in the electricity industry, their principal market.

Mr Malcolm Edwards, commercial director of British Coal, plans to deliver the warning to a conference of representatives of coal producing nations in Cartagena, Colombia. It is aimed particularly at coal producers in Central America and other Third World countries geared to exports to Western Europe and Japan.

Recalling how coal prices "nosedived" after the collapse of world oil prices two years ago, he claims that unless current investment in new mining capacity is restrained, these mines will enter a market far smaller than that for which they were built.

He blames the shrinkage on environmental pressures against coal burning, the disenchantment with large conventional coal-fired power stations, renewed competition from oil and gas and the attempts to rehabilitate nuclear power.

He also points to the resistance of indigenous coal industries in Britain and West Germany to penetration of their markets by imports – spectacular cost cutting in Britain's mines and Government protectionism in Germany.

With electricity sales continuing to rise, there were plans to increase the amount of steam coal traded internationally from 145m tonnes a year to 180m tonnes over the next five years.

But according to Mr Edwards, international suppliers "could find themselves in a market where more output at lower costs does not produce better profits but only lower prices."

In Europe, one of the biggest markets for imported coal, cheaper oil and gas would effectively replace all the 40m tonnes of additional power station coal needed by the year 2000, and on which coal producers had been counting.

In Britain, a big resumption of oil burning is expected and gas, previously too precious to burn in power stations, is billed to take all the growth in fossil burn in the next five years.

WEEKLY METALS PRICES

Prices from Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,850-1,950 (1,830-1,870).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 6.20-6.35 (5.65-5.95).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 6.30-6.70 (6.40-6.70).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 7.45-7.65 (same).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 245-260 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 3.68-3.75 (same).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 6.50-7.30 (same).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 51-64 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 6.10-6.50 (6.60-7.00).

URANIUM: Nuexco exchange value, $ per lb, 9.55 (same).

WORLD COMMODITIES PRICES

LONDON MARKETS

COPPER prices closed at the day's high on the LME yesterday following a rally on Comex. The premium for cash metal over three-month widened to £22.50 a tonne from £9.50 on Monday, reflecting tightness of end-June supply. There has also been some borrowing to cover against lost production at Metallurgie Hoboken-Overpelt's strike-bound Olen plant, traders said. The recent bounce from around $2,400 for three-month metal has given the market some upside potential, without changing overall bearish sentiment, and many commentators still advocate selling into rallies above $2,500. The drawdown of some 40,000 tonnes from LME warehouse stocks over the past four weeks has also probably filtered through as a mildly bullish factor. It has developed against a background of North American labour contract talks which so far show little progress.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$14.40-4.55v	-0.15
Brent Blend	$16.45-6.55v	-.305
W.T.I. (1 pm est)	$19.57-9.42v	-0.08
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$215-217	-5
Gas Oil	$136-137	-2
Heavy Fuel Oil	$83-85	-1.5
Naphtha	$164-166	-6
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♦	$359.25	-0.75
Silver (per troy oz)♦	520c	-1
Platinum (per troy oz)	$484.0	+0.1
Palladium (per troy oz)	$150.60	-0.15
Aluminium (free market)	$1915	+30
Copper (US Producer)	115½-15⅝c	-1¼
Lead (US Producer)	38.00c	+0.75
Nickel (free market)	325c	-25
Tin (European free market)	$10225	+35
Tin (Kuala Lumpur market)	27.53r	-0.14
Tin (New York)	469c	
Zinc (US Prime Western)	80½c	
Cattle (live weight)†	120.10p	-0.90*
Sheep (dead weight)†	192.71p	-46.9*
Pigs (live weight)†	91.34p	+6.07*
London daily sugar (raw)	$254.2u	+8.2
London daily sugar (white)	$374u	+5
Tate and Lyle export price	£309.5	+7.5
Barley (English feed)	£104w	
Maize (US No. 3 yellow)	£131.5	
Wheat (US Dark Northern)	£151.25u	+0.75
Rubber (spot)♥	59p	+1
Rubber (Jul)♥	64.5p	+1.0
Rubber (Aug)♥	65p	+1
Rubber (KL RSS No 1 Jul)	251.5m	-1.0
Coconut oil (Philippines)§	$587.5v	+30.0
Palm Oil (Malaysian)§	$380	
Copra (Philippines)§	$357.5	+2.5
Soyabeans (US)	£198	
Cotton "A" Index	78.55	+1.60
Wooltops (64s Super)	620p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. v-Jul. u-Jun/Jul. x-Jul/Aug. w-Aug. z-May/Jun. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♦ Bullion market close. m-Malaysian cents/kg.

COCOA £/tonne

	Close	Previous	High/Low
Jul	836	817	837 819
Sep	857	837	857 839
Dec	909	892	910 892
Mar	906	895	907 893
May	910	898	910 896
Jul	925	912	925 910
Sep	936	930	939 924

Turnover: 6314 (4040) lots of 10 tonnes. ICCO indicator prices (SDRs per tonne). Daily price for Jun 12 1002.48 (1003.99) :10 day average for Jun 13 979.65 (979.69)

COFFEE £/tonne

	Close	Previous	High/Low
Jly	1100	1220	1175 1095
Sep	1085	1188	1135 1080
Nov	1051	1177	1120 1051
Jan	1057	1176	1112 1060
Mar	1056	1166	1110 1065
May	1070	1165	1110 1081
Jly	1100	1165	1110 1108

Turnover: 5026 (2185) lots of 5 tonnes. ICO indicator prices (US cents per pound) for Jun 12: Comp. daily 109.49 (113.47) . 15 day average 115.83 (115.26)

SUGAR ($ per tonne)

Raw	Close	Previous	High/Low
Aug	264.00	264.80	267.40 264.00
Oct	251.00	253.60	255.40 250.80
Dec	260.00	262.00	251.00 260.00
Mar	251.60	255.40	256.00 250.80
May	251.00	255.00	254.00 252.20
Aug	256.00	254.00	
Oct	247.60	253.00	251.00 249.20
White	**Close**	**Previous**	**High/Low**
Aug	361.00	359.00	364.00 360.00
Oct	331.00	332.50	334.00 330.00
Dec	323.00	324.00	326.00 324.00
Mar	311.00	312.00	314.50 311.00

Turnover: Raw 3835 (3678) lots of 50 tonnes. White 758 (1097). Paris- White (FFr per tonne): Aug 2489 Oct 2287, Dec 2212, Mar 2155, May 2145 Aug 2142, Oct 2097.

CRUDE OIL $/barrel

	Close	Previous	High/Low
Aug	16.24	16.64	16.48 16.22
Sep	16.04	16.45	16.26 16.04
IPE Index	16.67	17.57	

Turnover: 6185 (6407)

GAS OIL $/tonne

	Close	Previous	High/Low
Jul	135.50	138.25	137.25 134.50
Aug	135.00	138.25	137.25 134.50
Sep	135.50	139.25	138.25 135.75
Oct	136.00	141.25	139.50 137.00
Nov	139.75	142.00	141.00 138.75
Dec	140.75	143.50	142.50 140.75

Turnover 3663 (5070) lots of 100 tonnes

COTTON

Liverpool- Spot and shipment sales for the week ended June 9 amounted to 698 tonnes against 236 tonnes in the previous week. Trading was of a fairly high quantity with various countries involved in sales including Israeli, West African and Mexican.

JUTE

C and f Dundee: BTC $550, BTD $490, BWD $490; c and f Antwerp: BTC $520, BWC $510, BWD $460, BTD $460.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 17,826 tonne
Cash	1910-20	1875-80	1925/1920	1915-20		
3 months	1852-5	1826-8	1885/1850	1850-5	1850-6	35,732 lots
Copper, Grade A (£ per tonne)						Ring turnover 41,350 tonne
Cash	1677-9	1640-2	1680/1651	1650-2		
3 months	1655-6	1630-1		1634-5	1659-60	75,334 lots
Lead (£ per tonne)						Ring turnover 7,750 tonne
Cash	435-7	440-5		433-4		
3 months	414.5-5	410-1	418/412	412-3	415-6	9,869 lots
Nickel ($ per tonne)						Ring turnover 1,698 tonne
Cash	11460-500	11700-800	11500/11450	11400-50		
3 months	10800-25	11200-50	11100/10800	10875-925	10925-50	7,282 lots
Tin ($ per tonne)						Ring turnover 450 tonne
July 3	10215-25	10225-45		10220-35		
3 months	10235-5	10250-60	10250/10240	10245-50	10245-6	1,266 lots
Zinc, Special High Grade ($ per tonne)						Ring turnover 7,725 tonne
Cash	1620-5	1615-20	1630/1625	1627-9		
3 months	1520-5	1525-30	1530/1520	1515-20	1520-30	11,898 lots
Zinc ($ per tonne)						Ring turnover 8,675 tonne
Cash	1485-95	1480-500	1488/1485	1487-8		
3 months	1450-5	1450-5	1463/1450	1452-5	1450-5	10,064 lots

POTATOES £/tonne

	Close	Previous	High/Low
Nov	111.0	109.1	110.0 109.0
Feb	122.0	130.0	125.0
Apr	192.5	188.8	190.5 189.0
May	209.0	214.0	210.0 209.0

Turnover 712 (964) lots of 40 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Jun	157.00	153.00	
Aug	149.00	147.50	
Oct	147.50	147.00	146.50 146.00

Turnover 50 (22) lots of 20 tonnes.

FREIGHT FUTURES $10/index point

	Close	Previous	High/Low
Jun	1365	1365	1366 1350
Jul	1384	1380	1384 1370
Oct	1515	1480	1510 1490
Jan	1550	1525	1545 1526
Apr	1570	1530	1555
BFI	1390	1400	

Turnover 341 (188)

GRAINS £/tonne

Wheat	Close	Previous	High/Low
Jun	115.15	115.80	115.65 115.15
Sep	105.15	104.90	105.05 104.00
Nov	108.25	107.95	108.25 106.00
Jan	111.55		111.55 111.20
Mar	114.70		114.25
May	118.00		118.00 117.45
Jun	119.60		119.50
Barley	**Close**	**Previous**	**High/Low**
Sep	104.10	103.65	104.00 103.60
Nov	107.05	107.05	107.25 107.15
Jan	110.70	110.40	110.70
Mar	113.60	113.30	113.60 113.50
May	115.10	114.75	115.00 114.80

Turnover: Wheat 279 (13). Barley 63 (39). Turnover lots of 100 tonnes.

PIGS (Cash Settlement) p/kg

	Close	Previous	High/Low
Jun	113.0	114.0	113.0 112.5
Aug	110.5	111.0	110.0 109.6
Oct	115.0	115.0	
Nov	116.0	116.0	
Feb	109.0	108.5	
Apr	110.0	109.5	110.0

Turnover 24 (27) lots of 3,250 kg

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	359-359½	236¼-237
Opening	361-361½	237-237½
Morning fix	360.5	237.093
Afternoon fix	359.7	236.22
Day's high	361-361½	
Day's low	358-358½	
Coins	**$ price**	**£ equivalent**
Mapleleaf	370-375	244-247
Britannia	370-375	244-247
US Eagle	370-375	244-247
Angel	370-375	244-247
Krugerrand	358-361	236-238
New Sov.	83½-84½	55-55¾
Old Sov.	83½-84½	55-55¾
Noble Plat	486.15-493.95	319.3-324.45
Silver fix	**p/fine oz**	**US cts equiv**
Spot	343.30	522.25
3 months	356.95	534.85
6 months	366.45	548.15
12 months	380.30	570.15

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jul	Sep	Jul	Sep
1800	127	109	13	55
1900	60	61	46	105
2000	21	31	106	173
Copper (Grade A)	Calls		Puts	
2400	184	157	26	84
2500	72	107	64	132
2600	33	70	124	192

LONDON FOX TRADED OPTIONS

Sugar No. 6	Calls		Puts	
	Jul	Sep	Jul	Sep
1150	4	20	64	110
1200	1	11	100	151
1250		5	150	195
Cocoa	Jul	Sep	Jul	Sep
800	39	70	3	14
850	8	39	23	33
900	1	19		63

US MARKETS

IN THE METALS, gold and silver prices edged higher from light buying against a setback in the dollar, reports Drexel Burnham Lambert. Trading was choppy as many await the dollars next move. Copper gained from a strong London market. In the softs, coffee was again the most active market with prices sinking over 900 basis July. Breakdown of the talks is still weighing on the market. Specs and commission houses added support to the cocoa market. Sugar prices remained firm in light activity. All of the grain markets closed higher but volume was only moderate. Light commercial buying was featured in the soy complex while Mondays bullish crop report helped wheat futures advance. The livestocks featured higher belly prices as increased user interest and a strong cash market added strength. Cattle futures gained slightly from an announcement of Japanese tender business. Hog futures were lower with increased runs noted. The energy complex had a very choppy session with trade and commission houses mixed. Cotton prices rose sharply for the second straight day.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low
Jun	363.1	361.9	364.4 359.0
Jul	364.4	363.3	0 0
Aug	366.5	365.8	368.4 362.0
Oct	370.8	369.6	372.0 368.0
Dec	374.8	373.5	376.8 370.4
Feb	378.7	377.3	0 0
Apr	382.8	381.3	0 0
Jun	386.8	385.3	388.4 386.4
Aug	391.0	389.3	0 0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low
Jul	483.1	488.4	488.5 481.5
Oct	485.1	490.2	490.5 483.0
Jan	488.4	491.5	491.5 485.0
Apr	489.9	494.8	492.0 490.0
Jul	493.9	498.3	0 0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low
Jun	522.4	520.2	0 0
Jul	525.0	523.0	527.5 519.5
Aug	529.5	527.5	0 0
Sep	534.1	532.1	537.0 525.5
Dec	546.4	544.2	548.0 541.5
Jan	548.6	547.6	548.0 548.0
Mar	558.0	555.7	559.5 554.0
May	566.2	563.8	567.5 562.0
Jul	574.6	572.1	574.5 574.5
Sep	583.0	580.4	0 0

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low
Jun	108.85	108.05	108.80 108.80
Jul	109.40	108.65	111.70 108.80
Aug	108.50	107.75	0 0
Sep	107.80	106.80	108.40 107.50
Dec	105.60	105.00	107.20 105.60

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low
Jul	19.42	19.25	19.48 19.17
Aug	18.54	18.25	18.61 18.16
Sep	17.78	17.78	17.92 17.68
Oct	17.47	17.53	17.67 17.42
Nov	17.30	17.36	17.50 17.26
Dec	17.07	17.11	17.26 17.03
Feb	16.95	17.02	17.09 16.95
Mar	16.85	16.94	17.10 16.85

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low
Jul	4495	4545	4575 4475
Aug	4535	4582	4620 4520
Sep	4610	4650	4695 4595
Oct	4685	4725	4760 4680
Nov	4770	4800	4845 4760
Dec	4850	4870	4913 4840
Jan	4880	4900	4945 4880
Feb	4800	4840	4912 4860
Mar	4650	4660	4690 4650
Apr	4500	4530	4530 4500

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low
Jul	1162	1168	1183 1154
Sep	1204	1205	1223 1195
Dec	1228	1236	1245 1225
Mar	1232	1244	1250 1226
May	1243	1254	1251 1240
Jul	1262	1273	1262 1255
Sep	1277	1289	1292 1280

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low
Jul	115.70	124.84	119.50 115.00
Sep	111.50	118.75	114.00 111.00
Dec	111.63	117.53	111.53 111.53
Mar	111.20	117.20	111.20 111.00
May	110.00	116.00	110.00 110.00
Jul	113.00	119.00	113.00 113.00
Sep	111.00	118.75	112.00 111.00

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low
Jul	11.86	11.81	11.98 11.83
Oct	11.80	11.80	11.98 11.74
Jan	11.12	11.12	0 0
Mar	11.31	11.40	11.49 11.30
May	11.32	11.33	11.43 11.29
Jul	11.25	11.28	11.32 11.25
Oct	11.12	11.22	11.35 11.35

COTTON 50,000; cents/lbs

	Close	Previous	High/Low
Jul	68.90	68.95	68.85 68.10
Oct	69.85	68.30	70.30 69.45
Dec	69.65	68.41	70.40 68.80
Mar	70.75	69.80	71.10 70.25
May	71.35	69.95	71.40 70.80
Jul	71.25	69.95	71.40 70.80
Oct	67.30	67.60	67.95 67.30

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low
Jul	183.25	173.30	180.50 173.75
Sep	165.20	163.85	165.20 154.00
Nov	158.20	153.70	158.60 154.00
Jan	151.00	150.25	152.80 150.50
Mar	149.60	149.45	0 0
May	149.95	148.80	0 0
Jul	149.95	148.60	0 0
Sep	149.95	148.90	0 0

INDICES

REUTERS (Base: September 18 1931 = 100)

June 12	Jun 9	mnth ago	yr ago
2013.5	1985.6	2010.5	1994.5

DOW JONES (Base: Dec. 31 1974 = 100)

Spot	131.50	130.95	137.38	140.37
Futures	130.77	131.10	135.91	141.00

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low
Jul	701/0	693/0	705/0 694/2
Aug	692/2	682/4	673/0
Sep	636/6	628/6	642/0 632/4
Nov	626/0	616/0	631/0 617/4
Jan	634/0	627/0	638/4 627/4
Mar	646/0	636/4	648/0 636/0
May	654/0	645/0	654/4 642/4
Jul	652/0	645/0	655/0 644/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low
Jul	20.22	20.01	20.30 20.05
Aug	20.43	20.20	20.50 20.30
Sep	20.62	20.42	20.65 20.50
Oct	20.75	20.56	20.85 20.62
Dec	21.11	20.89	21.15 20.85
Jan	21.21	21.02	21.26 21.20
Mar	21.60	21.45	21.68 21.55
May	21.80	21.65	21.90 21.80

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low
Jul	203.4	201.7	203.8 201.7
Aug	198.6	196.0	199.0 196.5
Sep	192.7	190.7	194.0 190.2
Oct	188.5	184.7	189.5 186.0
Dec	187.4	184.4	189.5 186.0
Jan	187.5	184.5	189.0 184.0
Mar	187.5	184.5	189.0 186.0
May	186.5	185.5	187.5 185.5

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low
Jul	263/4	249/4	263/4 249/6
Sep	238/6	236/4	240/4 237/2
Dec	236/4	233/2	237/2 234/0
Mar	244/4	241/2	245/0 241/6
May	249/2	245/6	250/2 247/0
Jul	249/6	246/2	250/2 246/0
Sep	242/4	240/4	242/4 240/0
Dec	239/4	236/0	239/4 236/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low
Jul	392/2	388/4	392/6 388/4
Sep	398/6	396/0	400/4 395/6
Dec	412/4	409/2	413/2 409/4
Mar	418/0	415/2	418/4 415/0
May	405/0	404/0	405/0 404/0
Jul	370/0	369/2	370/4 370/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low
Jun	70.65	70.22	70.90 70.15
Aug	68.62	68.05	69.07 68.55
Oct	69.52	69.10	69.80 69.52
Dec	71.52	71.62	71.80 71.40
Feb	71.82	71.50	72.10 71.75
Apr	72.80	72.00	73.10 72.75
Jun	71.30	71.30	71.30 70.90

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low
Jun	47.65	48.20	48.37 47.60
Jul	47.05	47.52	47.95 47.00
Aug	45.55	45.70	46.07 45.45
Oct	42.05	42.02	42.40 41.87
Dec	44.45	44.37	44.75 44.10
Feb	45.82	45.92	46.25 45.80
Apr	43.75	43.70	43.90 43.50
Jun	47.40	47.40	47.70 47.40

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low
Jul	34.52	33.60	35.25 33.15
Aug	34.17	33.42	34.90 33.02
Feb	47.87	47.95	48.50 47.20
Mar	47.02	47.20	48.00 47.00
Jul	46.60	47.00	47.00 46.25
Aug	47.00	47.00	0 0

LONDON STOCK EXCHANGE

Equities resist interest rate alarms

UK EQUITIES stood up relatively well to yesterday's onslaught on sterling as some market strategists took the view that the UK Government will do its utmost to stand out against pressures from the foreign exchange markets for another rise in domestic interest rates. Shares gave ground, but turnover remained low, and market opinion was nervously balanced towards the interest rate equation.

Once again, losses in equities were restrained by traders' awareness that the big institutions are at present unwilling sellers and often opportunistic buyers of leading stocks. While there were falls across the range of interest rate sensitive issues, including properties and breweries, trading volumes in these sectors were fairly modest. Only at the very end of the session were there signs of selling pressure in the blue chips. Dealers noted some lines of stock on offer, notably in BAT Industries which advanced strongly last week.

Account Dealing Dates			
*First Dealings:	Jun 5	Jun 19	Jul 3
Option Declarations:	Jun 15	Jun 29	Jul 13
Last Dealings:	Jun 16	Jun 30	Jul 14
Account Day:	Jun 26	Jul 10	Jul 24

*New time dealings may take place from 9.00 am two business days earlier.

Equities opened steadily, sustained partly by expectations of further strength in dollar stocks and partly by internal market factors as the trading programme of the previous session was unwound.

But all other factors were thrust aside when the pound began to slide below the 91 sterling rate index figure, and three month domestic money rates moved up towards 14½ per cent. Sterling index rate 90 is regarded as a "trigger" level for the UK monetary authorities.

By late yesterday morning, the domestic money markets were hinting at base rate rises of two or even three points, and equity investors retired to the sidelines. Without seeing much significant selling pressure, the stock market slid away to show a fall of just over 22 points on the FT-SE scale.

The Bank of England's signal at midday that it did not want rates to rise yesterday brought an immediate rally in equities, which was taken a stage further when Mrs Thatcher reiterated her endorsement of the policies of Mr Nigel Lawson, the Chancellor of the Exchequer. The FT-SE Index closed 15.3 down at 2,128. Seaq volume picked up to 463.8m shares from Monday's 381.1m but was still at the light end of the recent range.

Beneath its readiness to believe that domestic rates may be held steady at 14 per cent – at least for the present – the stock market remained very nervous. "The chances of a rise in rates must still be over 50 per cent," said Mr John Reynolds at Prudential-Bache.

Sterling could face further risks later this week when UK data on wage costs and, in particular, on domestic inflation is due. Tomorrow brings the US trade figures for April, which are likely to spark off renewed activity in the currency markets.

FINANCIAL TIMES STOCK INDICES

	Jun 13	Jun 12	Jun 9	Jun 8	Jun 7	Year Ago	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs	83.91	84.43	84.80	84.96	84.59	90.03	89.29 (9/2)	84.43 (5/6)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	95.21	95.41	95.42	96.36	95.96	98.20	99.59 (15/3)	95.21 (13/6)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary	1756.0	1770.4	1776.7	1773.0	1756.2	1482.7	1837.5 (19/5)	1447.8 (3/1)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	183.1	182.6	189.5	190.2	190.1	221.2	196.1 (28/3)	154.7 (17/2)	734.7 (15/2/83)	43.5 (26/10/71)

	Jun 13	Jun 12	Jun 9	Jun 8	Jun 7	Year Ago
Ord. Di. Yield	4.59	4.55	4.54	4.55	4.63	4.45
Earning Yld %(full)	11.13	11.03	11.00	11.01	10.97	11.41
P/E Ratio(Net)(☆)	10.88	10.98	11.01	11.00	11.04	10.88
SEAQ Bargains(5pm)	24,590	24,670	26,266	26,312	24,857	25,773
Equity Turnover(£m)†	-	1146.12	1653.27	1880.63	1300.66	1064.99
Equity Bargains†	-	27,176	30,715	31,847	26,936	26,416
Shares Traded (ml)†	-	434.3	628.8	622.5	465.8	390.6

Ordinary Share Index, Hourly changes

Opening	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1771.6	1759.8	1757.4	1750.6	1753.5	1753.1	1755.3	1757.1

DAY'S HIGH 1771.6 DAY'S LOW 1750.6

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974, ☆Nil 10.79 †Excluding intra-market business.

S.E. ACTIVITY

Indices	Jun 12	Jun 9
Gilt Edged Bargains	98.1	97.3
Equity Bargains	176.1	199.0
Equity Value	2314.8	3341.7
5-Day average		
Gilt Edged Bargains	96.5	98.2
Equity Bargains	189.2	191.0
Equity Value	2885.7	2912.3

London Report and latest Share Index: Tel. 0898 123001

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
ASDA Group	1,600	171½	-1½	Cookson	2,600	325	-10	Laporte	97	432	-9	Royal Bk of Scotland	115	303	-3
Allied-Lyons	1,300	434	-2	Courtaulds	718	333	-5	Legal & General	969	312	-1	Royal Insurance	1,600	389	+1
Amstrad	2,800	84	-3	Dalgety	86	354	-2	Lloyds Bank	596	340	-4	STC	648	342	+5
Argyll Group	5,100	210	+3	Dixons	1,300	143	-3	LASMO	597	456	-8	Saatchi & Saatchi	2,300	318	-7
Ass. Brit. Foods	626	367	-1	Eng. China Clays	490	465		Lonrho	361	267	-1	Sainsbury	3,500	231	+3
BAA	3,200	341	-17	Enterprise Oil	37	523	-2	Lucas	997	636	-9	Scott & Newcastle	427	315	-2
BAT Inds.	5,200	647	-11	F/O Babcock	481	168		MB Group	1,100	195	-6	Sears	2,700	116	-2
[illegible]				[illegible]				[illegible]				[illegible]			
British Airways	3,100	202	-1	Guinness	738	496	-3	Polly Peck Intl.	2,300	270	-8	Taylor Woodrow	371	636	-5
British Gas	7,800	193¼	-1	Hammerson "A"	97	779	-8	Prudential	4,600	175½	-2½	Tesco	994	181	+1
British Land	1,000	348	-10	Hanson	7,600	190½		RHM	812	448	-3	THORN EMI	355	715	-3
BP	9,700	295	-4	Harrisons & Cros.	1,100	184	-1	RMC	732	748	-10	Trafalgar House	1,600	342	-12
British Steel	16,000	134½	-1½	Hawker Siddeley	288	683	-12	RTZ	2,400	493	-4	Trusthouse Forte	1,700	313	-6
British Telecom	12,000	280	-3½	Hillsdown Hldgs.	2,200	275	-4	Racal	10,000	546	+10	Ultramar	2,500	295	-2
Burmah Oil	236	587	-4	IMI	773	219	-4	Rank Org.	482	938	-18	Unilever	2,100	561	+8
Burton	4,200	207	-3	Imp. Chem.	790	1247	-6	Reckitt & Colman	213	1165	-14	United Biscuits	400	336	-1
Cable & Wireless	1,900	477	+2	Inchcape	782	246	-2	Redland	1,600	541	-15	Utd. Newspapers	581	435	-13
Cadbury Schweppes	1,100	356	-1	Jaguar	953	354	-6	Reed International	1,800	412	-6	Wellcome	644	426	-2
Carlton Comms.	449	835	-21	Kingfisher	955	285	-3	Reuters	723	770	-4	Whitbread "A"	3,300	357	
Commercial Union	1,400	365	-1	Ladbroke	1,500	370	-4	Rolls Royce	4,500	180½	-3	Williams Hldgs.	1,800	247	-2
Cons. Gold Fields	601	1248	+3	Land Securities	553	562	-6	Rothmans	344	523	-6	Wimpey	996	270	-6

Cautious views on BAA

Dealers were caught unawares when BAA slumped 18, more than 5 per cent, after revealing full year profits 19 per cent better and right at the top end of expectations. It eventually closed 17 down at 341p as 3.2m shares changed hands.

The reason was what one analyst described as "a health warning" from the management, suggesting that profits would be flat in 1991 and 1992. Three specific stories moved about the market: that accounting changes over runway maintenance would cost £12m a year, that tightening of airport security would cost £10m a year, and that interest charges arising from the costs of the new terminal at Stansted would bite into profits to the tune of £50m in 1991.

Analysts were united in playing down the first two of these, claiming that price rises within Government-imposed limits would recoup a large proportion of the outlays, but they were divided over the impact of the last. On the bullish side, Mr Ian Wild and Ms Jennie Younger, the transport team at BZW, sighed that BAA's property operation would start delivering a profit stream at precisely the right time to counteract the Stansted charges.

But Mr Richard Finch at Citicorp Scrimgeour Vickers said the message to analysts from BAA was to be cautious. "It's a good long term bet, but where are the buyers now?" he said. Mr Stephen Clapham of Hoare Govett, BAA's brokers, said that the market had not worked out whether BAA was a thrusting property company or a dull regulated utility riddled with uncertainty over an OFT investigation.

All three analysts are edging up their forecasts for the current year's profits to around the £240m mark.

Warburg delights

Preliminary results from SG Warburg, the merchant bank that encompasses Warburg Securities, the highly-rated UK securities house, brought a spirited performance from the shares; the figures were way ahead of analysts' most optimistic forecasts.

Pre-tax profits of £111.5m for the year ended March 31 showed a tiny improvement on last year's £111.1m, but were, according to marketmakers, fully £10m higher than the most bullish stockbrokers' estimates. The final dividend, 8.8p making 12.5p for the year, was also at the very top end of forecasts.

Dealers said the Warburg figures took the market completely by surprise and were accompanied by a burst of buying interest which saw the share price race up to 330p at one point before easing a shade to close a net 13 higher at 326p.

"What pleased the market most was the fact that Warburg's equities trading business showed a profit – a remarkable achievement given the present massive overcapacity," commented one sector specialist. Mr Chris Smith, merchant banking analyst at BZW, said Warburg continues as the pick of the sector for long-term funds; but if you expect more speculative activity in the sector, as we do, then Warburg are not expected to be a target."

Racal ahead

Shares of Racal Electronics and the group's 80 per cent-owned Racal Telecommunications, among the best performing FT-SE issues since the latter's flotation last October, raced higher after both companies announced preliminary results which pleased the market.

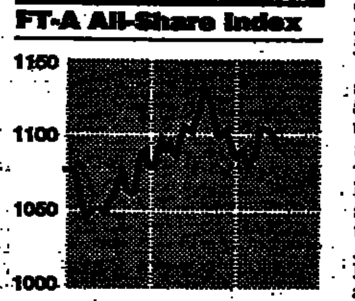
Electronics' pre-tax profits came out at £177.8m, below the top end of the range of City forecasts which had gone as high as £185m but well up on the previous year's figure of £88m. The results were spiced by the announcement of a one-for-one scrip issue.

Telecom's numbers were well ahead of analysts' estimates. Pre-tax profits were £84.53m, compared with forecasts generally in the area of £75m to £80m.

Racal Electronics' shares were moving ahead, even before the results came out, as the group revealed it is selling instruments and automation divisions to [illegible]. At their best yesterday they touched 547p, before closing 10 ahead at 546p on turnover which reached 10m shares. Telecom shares settled 14 higher at 519p, after 525p, on turnover of 1.5m.

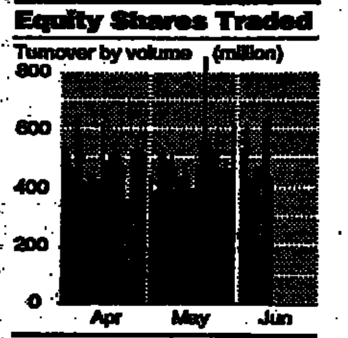
A late single deal in TSB of 4.9m shares left the shares unchanged on 103p at the close.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)



The excellent figures from SG Warburg helped steady most of the other merchant banks, but Morgan Grenfell were upset by a persistent seller and talk that there was plenty of the stock on offer around the market and eventually fell 8 to 368p.

Most of the life assurance stocks drifted easier but Sun Life moved against the overall trend, adding 10 at 953p on news that French insurance group has increased its stake in the UK life group by just over 0.5 per cent, or 303,000 shares to 20.21 per cent.

Sturge Holdings, the insurance broking group, jumped 14 to 264p, after 258p, following the interim results which were well ahead of market expectations. "Super profits, a good increase in the dividend and a positive forecast," said an insurance sector specialist.

Steady US buying of Blue Arrow was mopped up by keen UK sellers. The stock ended a shade easier at 96p on a busy turnover of 4m shares.

Unilever bucked the market's bearish trend, rising 8 to 561p after US brokers upgraded its great rival Procter and Gamble, which rose sharply in New York initially before falling with the market there.

Ladbroke, the hotels and leisure group edged higher to 380p at the outset but came under pressure in mid-morning amid revived market speculation that a rights issue could be in the pipeline. Dealers were sceptical of the stories, as was the leisure team at Kitcat and Aitken. Mr Bruce Jones of the Kitcat team said: "We would be amazed if Ladbroke had a rights issue immediately following their recent £150m convertible bond issue."

Saatchi and Saatchi shed 7 to 318p ahead of interims today. One marketmaker said that investors were wary of recent reports that the management consultancy division was open to offers. "They may have put a 'For Sale' sign out, but will they get any good offers?" he said.

The stores sector suffered early in the session from the widespread talk of further increases in UK interest rates, but steadied later in the day when short term interest rates reflected the Bank of England's signal that it did not want rates to go higher yesterday.

The individual stocks were only thinly traded; Storehouse were an exception and rallied well after an initial decline, closing a net 3 off at 155p, after 150p.

Lowndes Queensway eased 1½ to 44p as BZW, the securities house lowered their forecast for 1990 pre-tax profits from £17.5m to £12.5m.

Marks and Spencer were among the few good performers in the FT-SE 100, closing 2 higher at 189p; "Another display of the company's absolute quality and strong defensive position in the sector," said one marketmaker. Ratners drifted back 5 to 240p as the US presentations continued.

Dixons were pushed ahead to 147p at the outset, boosted by yet more buying inspired by bid speculation but later retreated to end the day with a 3 decline at 143p.

Bass, regarded as vulnerable to consumer spending trends, fell 15 to 961p, and Whitbread at 353p lost several pence. Both had abandoned early small gains, but neither saw any weight of trading.

Similar trends among the smaller brewers left Young's little changed at 525p and Joseph Holt at 1333p.

Allied Lyons (432p) and Grand Metropolitan (534p) also closed lower in modest trading as the big institutions showed no inclination to show themselves in what has become an uncertain market.

G F Lovell jumped 58 to 538p in thin volume on vague talk that assets would be injected to turn the company into an acquisitive shell.

Food processing equipment maker APV was knocked back 5 to 138p after Mr Tim Harris, analyst at UBS Phillips and Drew downgraded the company, in an internal presentation, from a buy to a hold. He also trimmed his profits forecast for the current year from £62m to £60m. The company visited P+D on Monday and told Mr Harris that second quarter orders were down 10 per cent on the previous year.

After the market closed, KKR, the US LBO specialist, said it had dropped out of talk with a third party interested in bidding for Gateway. Isosceles, a UK consortium, already has a 210p offer for Gateway shares on the table. Gateway had closed 2 down at 214p.

The recent strong run by British Telecom shares was brought to a halt by a flurry of profit-taking, much of it prompted by the market weakness. BT shares ended the day a 3½ easier at 280p; turnover was on a par with the high levels of recent weeks at 12m.

Cable & Wireless managed a small gain at 477p in front of the preliminary figures expected this morning. Warburg Securities is forecasting pre-tax profits of £404.7m, compared with last time's £356m.

Ferranti remained an unhappy market, slipping 2½ more to 92½p on 2.6m. Alphameric slumped 17 to 100p after revealing a lapse into losses and a cut in dividend.

Sir Ron Brierley's long-foreshadowed second bid for Molins, at 190p, left the company's shares at that level, 18 below to opening price.

Bromsgrove Industries continued to benefit from Monday's good final figures, firming 3 more to 149p.

When dealers discovered that 757,000 Cookson shares, bought in Monday's programme trade, were still in the hands of a single broker, they took advantage of the known overhang, and sold the stock short, driving the price down 10 to 325p. The weakness was exacerbated by first reports back an UK analysts trip to Cookson plants in the US which suggested that sales of specialist chemicals to consumer electronics companies was being hit by the slowdown in the US economy.

Fisons shed 10 to 287p on a turnover of 2.8m. One analyst suggested that sentiment was affected by the announcement yesterday that Mr Peter Fothergill, the company's head of pharmaceuticals, had sold 5,000 shares, one third of his holding in the company. Last week, Mr David Peters, head of corporate planning, sold 20,000 shares, cutting his holding to 19,000. Both sales happened on June 6.

Pilkington slipped 3 to 220p ahead of final figures due this morning.

Avon Rubber was knocked back to 582p after buying The Cadillac Group, of the US, for about £37m. The stock recovered steadily on consideration of the deal, eventually closing at 589p a net decline of 5.

BSS Group firmed 4 to 475p after revealing full year profits 21 per cent better at £12.6m.

Property shares were marked lower across the range when the City's fears that base rates might be pushed up to 15 per cent in defence of sterling sent the equity market sharply downwards. However, the sector leaders saw only modest selling pressure and final losses were not substantial.

In fact, the sector opened firmly, with several of the big names showing small rises until the pound began to slide in earnest. Share prices gave ground before lunch as traders waited to see how the Bank of England would respond to pressures in the foreign exchange and domestic money markets. Land Securities, finally 2 off at 566p, Arlington, 5 down at 215p and Great Portland, 3 off at 364p

Also easier were British Land, 6 lower at 350p and Slough Estates which lost 4 at 318p.

Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 31

NEW HIGHS AND LOWS FOR 1989

NEW HIGHS (121).

BRITISH FUNDS (2) AMERICANS (31) CANADIANS (8) BANKS (1) Schroders, BUILDINGS (4) Douglas (R.M.), Eve, Lafarge Coppee, Sharif, CHEMICALS (4) Englehard, Hercules, Leigh Int., Do. 8pc Pf., STORES (1) Limited, ELECTRICALS (2) ENGINEERING (2) Bromsgrove Inds., Vosper Thorn., FOODS (7) INDUSTRIALS (18) ASD Pf., Ass. Brit. Cons., Alfa-Laval AB "B", Astra AB, BSB, Brierley Invs., Bullers, CSR, Cooper (Alan), Dover, Grafton, Hawthorne Leslie, Pacific Dunlop, Photo-Me, Smithkline Beckman, Unilever, INSURANCE (4) Alex & Alex, Heath (C.E.), Lincoln Nat., Torchmark, LEISURE (1) Orient Express Hotels, NEWSPAPERS (1) Euromoney Pbs., PAPERS (6) FKB, More O'Ferr., Ogilvy, Osprey Comms., WCRS, PROPERTY (4) Britannia, Ests. & Gen., Ivory Merchant Dev., Rangeworth Tst., SOUTH AFRICANS (1) Barlow Rand, TRUSTS (38), OILS (8) Exxon, Hale Oil, Occidental Pet., Ranger Oil, Total-Cie, OVERSEAS TRADERS (1) ON Gt. Nordic, MINES (3) Anglo Am., White Creek, THIRD MARKET (1) ASS Barnett.

NEW LOWS (185).

BRITISH FUNDS (75) INT.BANK & O'SEAS GOVT. STLG. ISSUES (9) LOANS (6) FOREIGN BONDS (2) BANKS (1) Ottoman Bank, BUILDINGS (6) CHEMICALS (1) Wardle Storeys, STORES (6) ELECTRICALS (6) ENGINEERING (3) AT Tst., Molins, FOODS (1) Berisford, INDUSTRIALS (14) Aaronson Bros., Ass. Energy, Bestwood, Brit. Bloodstock, Copymore, Dolphin Pack., Halls Homes & Gdns., Kingsgrange, MB Gp., Mid Kent, Suter, Triefus, Walker Greenbank, Wills, INSURANCE (1) Hogg Rob. & Gardner, MOTORS (1) March, PAPERS (2) Brunning, Waverley Cameron, PROPERTY (7) TEXTILES (3) Lyles (S), Stoddard, Yorklyde, TRUSTS (4) Amal. F. Invs., City of Oxford, London Forfaiting, Scot. Nat. Spd. Pf., OVERSEAS TRADERS (1) Lonrho, MINES (1) Monarch Res.

APPOINTMENTS

Co-ordinating central functions for Glaxo

■ Dr Franz Humer has been elected to the board of GLAXO HOLDINGS from July 1. He is managing director of Glaxo Pharmaceuticals, the group's UK subsidiary. The company says that Dr Humer's primary task will be to formulate the group's product development and commercial policies and to co-ordinate all central functions. A Swiss national, Dr Humer joined the group in 1981 as area controller, southern Europe, and before that worked for the Schering Plough Corporation as general manager in Ecuador, the UK, and Portugal.

■ PROCTER & GAMBLE, Gosforth, has promoted Mr L.H. Cassie to the board. He is product development department manager.

■ FLEMING PRIVTAE ASSET MANAGEMENT has appointed Mr Charles Macfarlane as sales and marketing manager.

■ NATIONAL & PROVINCIAL BUILDING SOCIETY has appointed Mr Clifford Stanley as project manager, client and liaison. He was a project manager with Midland Bank. The Society has appointed two business development managers in the group business development unit, Mr Robin Cornell and Mr Christopher Bovaird.

■ Mr A.M. Baker, secretary of the ASSOCIATION OF BRITISH INSURERS's general insurance council, and manager, general insurance and international affairs, becomes manager, public affairs, on July 31 when Mr Robin French retires. Mr V.C. Rance, legislation manager, will take over from Mr Baker.

■ Mr John G. Gallagher has been appointed vice president of SCI SYSTEMS INC, responsible for the SCI UK, Irvine, Ayrshire, and for the new plant at Fermoy, Southern Ireland. SCI Systems Inc is based at Huntsville, Alabama, US, and Mr Gallagher was the company's first UK employee when it started at Irvine in 1984.

■ Mr Paul Clayman, formerly UK operations director, has been appointed deputy managing director of MAPPIN & WEBB, with specific responsibility for the company's shops in Japan, and the new wholesale division; Mr Alan Smith, associate director, becomes operations director for UK branches; Mr Tom Goldstaub is promoted from head of special projects to marketing director, a new post. At Garrard & Co Mr Richard Jarvis has been appointed deputy managing director, with specific responsibility for operations and marketing; Mr David Jones becomes a director in addition to his directorship of Mappin & Webb; Mr Nicholas Winton and Mr Barrie Leatherdale become associate directors.

HICKING PENTECOST, Nottingham, has appointed Mr Simon Gravett *(above)* as group finance director. He was group finance director with CoxMoore Group.

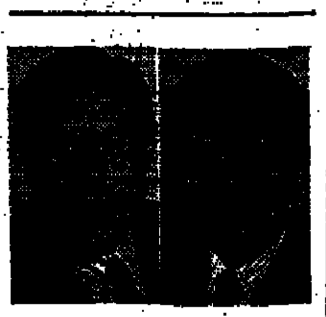
■ Mr David G. Perry, chief executive of John Waddington, has been appointed a non-executive director of WHITECROFT.

■ SVENSKA INTERNATIONAL has appointed Ms Mary Berg as senior manager, equities research department. She joins from Swiss Bank Corporation International.

■ Mr David Wickins has resigned as non-executive chairman of EXPEDIER LEISURE, a sailboard, walking stick and clay pigeon manufacturer which came to the USM as Scanro Holdings in 1984. He will be replaced by the Earl of Bradford, who moves up from deputy chairman, *writes Clay Harris, UK company news editor.*

Mr Wickins bought into Scanro in August 1987, a few months after his British Car Auctions was taken over by Hawley Group (now ADT). He cited business commitments outside the UK and his approaching 70th birthday as reasons for his departure.

Expedier said Mr Wickins planned to retain his holding of 866,250 shares – 7.1 per cent of the total – for the forseeable future.



VAUX GROUP has appointed Mr Christopher Storey *(left)*, company secretary since 1979, to the main board. Mr Tim Walker *(right)* becomes group financial director.

FT UNIT TRUST INFORMATION SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 01-925-2128

AUTHORISED UNIT TRUSTS

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Abbey Unit Tst Mngrs (1000)H						
80 Holdenhurst Rd, Bournemouth 0345 717373						
High Income						
American Income	6	56.96	57.63	61.31	+0.26	4.47
Gilts & Fixed Int	6	108.40	108.40	114.9	-0.3	8.70
High Inc Equity	6	132.6	135.5	144.2	-0.7	4.40
Worldwide Bond	6	209.8	209.8xd	222.9	+2.7	4.36
Capital Growth						
American Growth	6	196.5	196.5	210.2	+0.5	1.18
Asian Pacific	6	97.13	97.13	103.9	+0.8	1.25
Assets & Earnings	6	159.0	159.0xd	170.1	-0.8	2.18
Capital Reserve Acc	0	85.06	85.06	85.12	+0.13	4.70
Comdty & Energy	6	101.7	101.7	108.8	-0.1	1.75
1992 Enterprise	6	58.23	59.36	63.15	-0.14	2.85
European Capital	6	87.64	88.34	93.98	+1.15	0.80
General	6	175.0	178.0	189.4	-1.1	2.38
International		47.28	47.28	50.21	+0.14	1.00
Japan	6	106.4	106.4	113.8	+0.2	0.00
Mastertrust	6	86.57	86.57xd	92.59	+0.27	1.84
UK Growth Acc	6	200.3	200.3	214.30	-0.4	1.31
UK Growth Dist	6	133.6	133.6	142.9	-0.4	1.96
US Emerging Cos	6	58.74	60.58	64.45	+0.37	0.00
Income & Growth	6	290.3	290.3xd	310.5	-1.6	3.30
Ethical	6	49.00	50.23xd	53.44	-0.1	1.87
Abtrust Management Ltd (1000)H						
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580						
Amer Inc & Growth	5	32.86	32.86xd	35.08	+0.22	3.23
European	5½	65.29	65.48	69.90	+1.12	0.00
European Income	5½	64.98	65.49xd	69.92	+1.76	3.03
Exempt	1	800.7	800.7	835.7	-3.60	2.25
Extra Income	5	42.28	42.28xd	45.13	-0.30	5.07
F East Emerg Econs	5½	46.32	46.75	50.07	+0.38	0.84
Fund Inv Tst	5	121.7	121.7	129.9	+0.00	2.52
Do Accum	5	189.6	189.6	202.4	+0.10	2.54
Gilt & Fixed Int	5¼	21.21	21.21xd	22.64	-0.03	10.75
Income & Growth	5¼	72.51	72.51	77.41	-0.58	4.36
Intl Income	5¼	63.90	63.90xd	68.21	+0.10	5.23
Japan	5¼	181.2	181.2	193.4	-0.50	0.00
Pacific	5¼	345.0	348.0	372.8	+0.40	0.85
Secure Income	5	194.1	194.1xd	207.2	-1.30	6.31
Sentinel Spec Sits	5	273.9	273.9xd	292.4	-2.00	1.69
Smaller Companies	5¼	60.60	60.60	64.69	-0.18	2.42
Special Situations	5¼	70.39	70.39	75.14	-0.49	1.64
UK Growth	5	37.06	37.06	39.57	-0.23	2.66
UK Top 100	5¼	25.70	25.70xd	27.44	-0.23	3.29
World Growth	5	50.78	50.78xd	54.21	+0.02	0.50
Acorn Unit Trust Managers Ltd (1100)F						
1 White Hart Yd, London Bridge SE1 1NX 01-407 5966						
Ethical Tst	5	100.0	104.0	109.2	+0.16	3.00
CCL Unit Trusts Ltd (1400)F						
74 Shepherds Bush Green, W12 8SD 01-740 7070						
UK General Tst	5½	53.59	54.45	58.24	-0.56	2.70
Global Tst	5½	43.60	44.17	47.24	-0.16	2.01
Recovery Tst	5½	53.41	55.52	59.06	-0.48	1.92
CIBC Unit Tst Managers plc (1200)H						
Cottons Ctr, Cottons Lane, Ldn. SE1 2QL 01 234 6000						
Growth Fd Acc	5	107.0	108.3xd	114.3	-0.5	3.70
CS Fund Managers Limited (1000)H						
125 High Holborn, London WC1V 6PY 01-242 1148						
CS America	5	64.23	64.23	68.32	-0.26	0.64
CS International F	5	56.78	56.78xd	60.40	-0.16	1.77
CS Japan F	5	121.0	121.0	128.7	-1.0	0.34
CS Portfolio Inv ‡	5	72.18	72.18xd	76.78	-0.16	1.47
Canada Life Unit Tst Mgrs Ltd (1200)F						
2-6 High St, Potters Bar, Herts 0707 51122						
Can Gen Dist	5	139.5	144.5	152.2	-0.80	3.04
Do Gen Accum	5	232.7	241.1	253.8	-1.50	3.04
Do Income Dist	5	93.02	96.82xd	101.9	-0.60	5.53
Do Inc Accum	5	213.1	221.8	233.5	-1.90	5.53
Gilt & Fxd Int	5	35.24	35.29	37.15	-0.35	8.64
Cannon Fund Managers Ltd (0700)H						
1 Olympic Way, Wembley, HA9 0NB						
01-902 8876. Dealing: 0800 282621						
Growth	5½	38.04	38.04	40.68	-0.42	2.49
Income	5½	47.69	47.69	51.00	-0.62	4.02
Far East ‡	5½	35.81	36.11	38.62	-0.14	0.06
North American ‡	5½	37.56	38.06	40.71	+0.29	1.76
Global ‡	5½	51.16	52.17	55.50	-0.23	1.77
European	5½	54.93	55.49	59.35	+0.45	0.91
Japan ‡	5½	102.3	103.0	110.2	+0.30	0.01
Intl Currency Bd	5½	43.90	43.90	46.56	+0.30	6.44
Strategic Opps.	5½	53.96	53.96xd	57.71	-1.70	1.26
Capability Trust Mngrs Ltd (1200)F						
Admin, 5 Rayleigh Road, Hutton, Brentwood, Essex						
Enquiries 0277 227300 Dealing 0277 261010						
American & Gen	5	80.75	81.31	86.50	-0.04	1.65
(Accum Units)	5	84.31	84.89	90.31	-0.05	1.65
European Inc	5	55.55	55.97	59.54	+0.66	0.90
(Accum Units)	5	56.25	56.67	60.29	+0.69	0.90
Far East & Gen	5	63.86	63.86	67.94	+0.10	0
(Accum Units)	5	63.86	63.86	67.94	+0.10	0
Glenfriars	5	265.6	270.7	288.0	-0.4	1.88
(Accum Units)	5	275.2	280.6	298.5	-0.4	1.88
Growth	5	257.3	257.3	273.7	-2.6	3.22
(Accum Units)	5	394.7	394.7	419.9	-4.0	3.22
High Yield	5	315.9	318.2	338.5	-3.7	3.81
(Accum Units)	5	352.2	354.8	377.4	-4.1	3.81
Master Portfolio	1½	7933	7933	8221	-24	2.27
(Accum Units)	1½	8376	8376	8680	-25	2.27
Special Sits	5	63.86	63.86	67.94	-0.53	3.05
(Accum Units)	5	67.16	67.16	71.45	-0.55	3.05
Trustee	5	190.0	190.0	202.1	-2.0	3.47
(Accum Units)	5	320.7	320.7	341.2	-3.4	3.47
Exempt Fund						
High Yield	2	934.0	941.4	970.5	-10.3	4.89

[illegible]

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Meridian Growth	6	115.7	116.3	124.4	-0.8	1.52
Midland Personal Pension Unit Trust *						
British	6	56.56	57.18	60.83	-0.53	2.30
European Growth	6	57.74	57.82	61.51	+0.07	0.39
Gilt & Fixed	6	48.87	48.87	51.97	-0.32	8.73
Income	6	53.27	54.12	57.57	-0.57	3.59
Japan Growth	6	54.14	54.47	57.95	-0.43	0.00
Managed	6	54.92	55.74	59.30	-0.22	1.64
Money Market	6	52.56	52.56	55.49	....	10.79
North American	6	60.50	61.77	65.71	+0.27	0.38
Midland FSAVCS Unit Trust *						
British	6	53.68	54.23	57.69	-0.48	2.30
European Growth	6	56.39	56.47	60.07	+0.06	0.39
Gilt & Fixed Int	6	48.41	48.41	51.48	-0.31	8.76
Income	6	54.31	55.20	58.72	-0.60	3.59
Japan Growth	6	56.49	56.82	60.45	-0.44	0.00
Managed	6	54.24	55.06	58.57	-0.22	1.64
Money Market	6	50.71	50.71	53.74	....	10.80
North American	6	60.77	62.04	66.00	+0.28	0.38
UK High Inc Eq Inc	5	71.26	71.26	76.95	-0.35	5.86
UK High Inc Eq Acc	5	79.15	79.15	85.48	-0.39	5.86
Hong Kong Inc	5	38.85	38.85	41.43	-1.54	3.25
Hong Kong Acc	5	40.20	40.20	42.87	-1.59	3.25
Swiss Equities Inc	5	37.48	37.48	40.17	+0.63	1.21
Swiss Equities Acc	5	37.80	37.80	40.52	+0.64	1.21
W'wide Bond Inc	5	52.44	52.44	55.40	+0.56	5.85
W'wide Bond Acc	5	54.14	54.14	57.20	+0.58	5.85
Emerging Asia Inc	5	82.17	82.17	88.06	+1.97	0.00
Emerging Asia Acc	5	82.17	82.17	88.06	+1.97	0.00
Provident Mutual Unit Tst Mgrs Ltd (0905)H						
25-31 Moorgate, London, EC2R 6BA 01-588 3963						
PM Equity Gth	5	122.6	124.8	132.2	-0.4	2.61
PM Income & Gth	5	103.5	105.2	111.9	-0.7	4.68
PM Nth Amer Gth	5	58.39	58.39	62.11	+0.07	1.21
PM European Gth	5	56.46	56.46	60.06	+1.52	0.74
PM Japan Gth	5	77.43	77.79	82.75	+0.35	0.38
PM Overseas Gth	5	53.62	53.62	57.04	+0.44	0.46

[illegible]

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Prudential Holborn Unit Tsts Ltd (1445)H						
51-69 Ilford Hill, Ilford, Essex IG1 2DL 01-478 3377						
Holborn LinkLine 0800 010345						
Two Hourly Pricing						
Holborn Trust	6	23.34	23.65	25.29	—	1.13
Holborn Comm	6	76.78	76.78	82.11	-0.40	0.38
Holborn Equity Inc	6	68.62	68.62xd	73.39	-0.38	4.64
Holborn Equity	5	554.93	563.46	596.25	-4.40	3.38
Holborn European	6	132.99	134.53xd	143.88	+2.72	0.90
Holborn High Inc	6	83.33	83.33xd	89.12	-0.49	5.98
Holborn Intl Grth	6	120.07	120.07	128.41	-0.02	0.99
Holborn Intl Sm Co	6	54.10	54.10	57.80	+0.85	0.05
Holborn Japanese	6	154.60	155.38	166.18	+0.54	0.04

[illegible]

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Smith & Williamson Unit Tst Mgrs (1000)F						
1 Riding House St, London W1A 3AS 01-637 5377						
S & W American	5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
S & W Far Eastern	5	102.9	102.9	[illegible]	[illegible]	[illegible]
S & W Growth	5	97.70	99.03	104.7	[illegible]	[illegible]
S & W Income	5	99.38	101.6	107.4	[illegible]	[illegible]
S & W Smllr Sets	5	269.7	278.5	294.7	[illegible]	[illegible]
Sovereign Unit Tst Mngrs Ltd (1200)F						
12 Christchurch Rd, Bournemouth 0202 298422						

[illegible]

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ψ - 0001 to 1100 hours; ‡ - 1101 to 1400 hours; ♦ - 1401 to 1700 hours; ♦ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

The most recent report and scheme particulars can be obtained free of charge from fund managers.
Other explanatory notes contained in last column of the FT Unit Trust Information pages.

FT UNIT TRUST INFORMATION SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 01-925-2128

OTHER UK UNIT TRUSTS

INSURANCES

Continued on next page

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Noble Lowndes & Partners Ltd
PO Box 144, Croydon 01-686 2466

	Bid Price	Offer Price	+ or -	Yield Gross
Lowndes I (Gr. Mat)	135.9	143.1	-0.4	-
Lowndes II (Gr. Mat)	114.1	120.2	-0.7	-
Lowndes (Scot. Eqt)	125.3	131.9	-0.1	-

O'Halloran & Co/Countrywide
7 Cavell Ct, North St, Peterborough PE1 1RA 0733 44830

	Bid Price	Offer Price	+ or -	Yield Gross
Managed Fd	115.1	121.2	+0.1	-

PBR Fund Management Ltd
16 Northumberland Avenue, WC2N 5AP 01-839 6876

Rothschild Asset Management — Contd.

Bamford Brandt Currency Mgmt. Ltd

The Bangkok Fund

Baring Fund Managers (Guernsey) Ltd

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

JERSEY (**)

GUERNSEY (**)

FT UNIT TRUST INFORMATION SERVICE

ISLE OF MAN (**)

LUXEMBOURG (**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

BRITISH FUNDS—Contd

Over Fifteen Years

Undated

Index-Linked

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for September 1988: 108.4 and for April 1989: 114.3.

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Bank Accounts

Money Market Trust Funds

UNIT TRUST NOTES

LONDON SHARE SERVICE

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AMERICANS—Contd

1989 High	Low	Stock	Price £	+ or −	Div Gross	C'vr	Y'ld Gr's
542p	278p	Cullinet Sftwr 1c	542p	+20	—	—	—
27¾	21¾	Dana Corp. $1	26½	.....	$1.60	—	3.8
12	854p	Data General	12	.....	—	—	—
37½	28¼	Dun & Bradstreet $1	37½	+¼	$2.00	—	3.4
41½	30½	Eaton Corpn. 50c	41½	−⅛	$2.00	—	3.1
11⅛	8⅞	Echlin Inc.	11⅛	+1/16	70c	—	3.9
20½	16⅞	FPL Group 1c	20⅛	−⅛	$2.28	—	7.1
32¾	27¾	Ford Motor $1	32¾	+⅛	$3.00	—	5.9
45⅛	30¾	GATX 62½c	45⅛	+1/16	$2.00	—	2.8
35⅝	24¼	Gen. Elect. 63c	35⅝	−⅛	$1.64	—	2.9
567p	484p	General Host Corp $1	566p	+11	30c	—	3.4
39⅝	18¼	Gillette $1	27⅛	.....	96c	—	2.2
987p	616p	Gt Am First Svgs Bk $1	944p	−43	60c	—	4.0
23⅝	16⅞	Greyhound $1½	23	−⅛	$1.32	—	3.6
13⅞	847p	Hasbro Inc 50c	13⅞	.....	16c	—	0.7
49⅛	32¼	Honeywell $1½	49¼	−⅛	$2.10	—	2.7
20¼	15¼	Houston Inds.	20¼	+¼	$2.96	—	9.2
74⅝	63¼	IBM Corpn $1¼	71⅜	+⅛	$4.84	—	4.3
52p	45p	Image Storage/R.Sys.1c	47p	−3	—	—	—
28¼	18¼	Ingersoll-Rand $2	28¼	+3⅛	$1.20	—	2.6
32⅝	22½	Lockheed Crpn. $1	32⅝	+⅝	$1.60	—	3.1
22⅜	15⅞	Lone Star Inds $1	21⅜	−⅛	$1.90	—	5.5
24⅞	17½	Louisiana Land 15c	24⅞	+⅛	$1.00	—	2.6
16⅞	11⅞	Lowe's 50c	16⅞	+⅛	48c	—	1.8
24⅞	15⅞	Manuf. Hanover $1	24	−⅞	$3.28	—	8.6
20⅞	13⅞	Merrill Lynch $1	20½	+¼	$1.00	—	3.1
2253p	1910p	Molex Inc	2084p	+16	3.2c	—	—
27⅜	18¼	Morgan (JP) $2½	27⅜	+¼	$1.66	—	3.8
54⅝	36¼	NYNEX $1	54⅛	−⅛	$4.36	—	5.1
24	18¼	PHH Corp.	24	+⅛	$1.12	—	3.0
259p	220p	Pacific Agr.	259p	+2	—	—	—
26½	19	Pacificorp $3¼	26½	+¼	$2.76	—	6.3
27	16⅞	Pacific Telesis 10c	27	.....	$1.88	—	4.4
22⅛	15¼	Pall Corp. 25c	22⅛	.....	48c	—	1.4
55⅛	39⅜	Pennzoil 83 1/3c	55⅛	+⅛	$3.00	—	3.4
25¼	17⅛	Premark Intl	25¼	+⅛	84c	—	2.1
40⅞	28⅝	Quaker Oats $5	40⅞	+⅛	$1.20	—	1.9
31⅛	23½	Rep NY Corpn $5	30⅞	−⅛	$1.28	—	2.6
14⅞	11⅞	Rockwell Intl. $1	14⅞	+⅛	72c	—	3.1
35	21⅛	Southwestern Bell $1	34⅞	−⅛	$2.60	—	4.7
27⅞	17⅞	Sun Co. Inc. $1	27½	−⅛	$1.80	—	4.1
29⅞	22⅞	TRW Inc. 62½c	29⅞	+¼	$1.72	—	3.7
21⅞	14⅝	TW Services $5	21⅞	+⅛	10c	—	0.3
36⅞	26¼	Tenneco $5	36⅛	+⅛	$3.04	—	5.3
35⅞	28	Texaco $6.25	32⅛	.....	$3.00	—	5.9
28⅞	21⅝	Texas Instr. $1	28⅞	−⅛	72c	—	1.6
113⅞	58⅝	Time Inc. $1	113⅞	+1⅞	$1.00	—	0.6
18⅞	15⅞	TRINOVA Corp.	18⅝	−⅛	64c	—	2.2
24⅛	16	USX $1	24⅛	.....	$1.40	—	3.6
164p	126p	Unilab	162p	+4	—	—	—
33⅛	22⅛	Utd. Technologies	33⅛	+⅛	$1.60	—	3.0
158p	128p	Utilitech Inc.	141p	.....	—	—	—
46½	31½	US West	46½	+¼	$3.76	—	5.1
35⅞	22⅝	Waste Management $1	34⅞	−½	48c	—	0.9
20¼	13½	Whirlpool $1	19⅞	−½	$1.10	—	3.5
22⅝	16⅞	Whitman Corp.	22⅝	+⅛	$1.02	—	2.9
36⅞	28⅛	Woolworth $3½	36⅞	+1⅛	$1.88	—	3.3

CANADIANS

1989 High	Low	Stock	Price £	+ or −	Div Gross	C'vr	Y'ld Gr's
160p	129p	ABM Gold Corp	157p	−3	—	—	—
25¼p	4½p	Abbot Energy Corp.	25¼p	.....	—	—	—
14¼	902p	Amer. Barrick Res.	13⅞	.....	—	—	—
19½p	10½p	Armeno	13½p	.....	—	—	—
330p	94p	Asiamerica Hldgs	321p	.....	—	—	—
33½p	8¼p	Asamilto Expln.	11p	+1½	—	—	—
17¾	12⅞	Bk. Montreal	17¾	+⅛	$2.12	—	6.0
10⅛	655p	Bk. Nova Scot.	10⅛	+¼	92c	—	4.5
21⅞	17	BCE	21⅞	+⅛	$2.44	—	5.6
848p	570p	Bow Valley	807p	−2	40c	—	2.5
[illegible]							

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INSURANCES

[illegible]

LONDON SHARE SERVICE

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INSURANCES—Contd

1989 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E
1023	853	Sun Life 5p	953	+10	38.69	–	5.4	–
£71¼	255½	Taisho M EDR	£58¼	+1½	g010%	–	0.8	–
£26¾	£16¾	Torchmark $1.00	£26¾	+¾	Q$1.20	–	2.4	–
713	558	Trade Indemnity	700		7.0	–	1.3	–
£27⅞	£19	Travelers $1.25	£27⅞	–⅛	$2.40	–	5.5	–
£22¼	£15⅝	USF & G Corp $2.50	£22¼		Q$2.80	–	8.0	–
£29⅞	£18⅝	USLIFE Corp. $1.0	£29¼	–¼	Q$1.40	–	3.0	–
793	503	Utd Friendly B 10p	763	+5	31.25	2.4	5.5	8.9
265	216	Willis Faber 12½p	225	+1	11.46	1.2	6.8	16.4
48	41	Windsor 10p	42	–1	–	–	–	78.7

LEISURE

1989 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E
10	7	A & M Group 10p	7		–	–	–	–
£87½	£77½	Do. 10pc Cv Uns. Ln 1998	£77½		10%	–	17.2	–
170	143	Airtours 10p	161	–1	6.25	2.7	5.2	9.6
300	195	Anglia TV	261	–5	7.75	3.1	4.0	11.0
151	113	Avesco 1p	150		0.75	7.0	0.7	25.3
34	25	BCE Hldgs 5p	25		41.0	0.9	5.3	27.9
365	275	Barr & W.A.T. 'A'	360	–5	15.0	1.7	5.6	14.5
22	14	Bond Media	16	+1	02d	–	6.0	–
540	225	Boosey & Hawkes	530		10.0	♦	2.5	♦
54	35	Border T.V.	46		11.7	2.5	4.9	10.8
403	317	Brent Walker 10p	376	–3	11.0	♦	3.9	♦
117	87	Do 6pc Cr. Cm. Rd. Pf	104	–2	6.0	–	7.7	–
344	245	Campari Int. 20p	278	–2	8.5	3.9	4.1	7.2
878	504	Capital Radio 10p	883	–3	†10.0	3.6	1.7	22.1
912	662	Carlton Communications	835	–21	17.5	5.2	1.2	22.5
418	268	Castle Comms. 5p	415	+2	17.2	2.1	2.3	24.9
780	579	Central TV	775		25.5	2.5	4.4	11.8
248	126	Chrysalis	193	–2	3.43	0.1	2.4	–
194	101	Chrysalis 5p	182	–4	1.0	6.8	0.7	22.6

[illegible]

PAPER, PRINTING, ADVERTISING — Contd

1989 High	Low	Stock	Price	+ or -	Div Net
78	59	Prospective Grp 10p	60		41.0
85	40	SPS Consit. Grp.	51		±2.25
421	262	Saatchi 10p	318	–7	F16.0
98	76	Do. 6.3pcCrPfEL	76	–1	6.3%
109½	91¼	Do. 6⅜pc Pf 2005	93½	–½	06¼%
249	187	St Ives 10p	212		‡3.0
£32¼	£21½	Scott Paper	£32	–⅛	080c
176	116	Serif Cowells	131		6.0
145	105	Shandwick 1p	141		h1.88
60	46	Shelton (Martin) 10p	50		2.0
339	270	Smith (David S.) 20p	304	+1	†7.0
435	329	Smurfit (Jefferson)	388	–3	026.9%
£155½	£134	Do. 9⅞pc Cv Uns Ln	£141½		09⅞%
39	31	Stanco Exhibition 5p	38		90.4
256	174	TMD Advertising	254		3.0
50	35	Therpac Group 2½p	45		F1.17
50	44	Tinsley Robor 5p	48	+1	W2.0
249	179	U.K. Paper 10p	234	–3	6.0
413	353	Usher Walker 10p	358	–2	10.0
210	111	VPI Group 2½p	115	–1	‡3.5
129	106	Video Tape Rec 5p	115	+1	F2.7
280	182	WCRS Group 5p	278	–2	‡3.95
764	558	WPP Group 10p	700	–5	17.0
412	267	Wace Group 20p	396	–2	4.0
219	185	Waddington (J.)	192	–2	‡6.6
433	378	Watmoughs	388		g8.5
73	57	Waverley Cameron 5p	58		20.3
120	92	Way Mackay-Lewis 5p	92		4.3
195	148	Yellowhammer 5p	193	+1	‡2.5

PROPERTY

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

[illegible]

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

[illegible]

IRISH

[illegible]

TRADITIONAL OPTIONS

3-month call rates

Industrials

[illegible]

Property

[illegible]

Oils

[illegible]

Mines

[illegible]

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £[illegible] per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Sterling continues to fall

STERLING FELL sharply in currency markets yesterday as investors tested the UK Government's resolve to take whatever measures are necessary to keep the pound steady. The outcome was a fall by sterling to its lowest level since February 1987 against the dollar, a 15-month low in D-Mark terms, and no change in official lending rates.

The sharply weaker tone was evident very early in the day, pushing domestic interest rates higher as traders expected the authorities to react by sanctioning an increase in base rates. However, the timing of such a rise may be crucial. Tomorrow sees elections to the European Parliament as well as the release of UK average earnings. Neither is likely, in the market's view, to provide any comfort for the UK Government, and some analysts are suggesting that the authorities may decide to administer a short, sharp shock by pushing base rates up to 16 per cent from 14 per cent in one move. UK domestic rates are already over half way to discounting a one point rise.

Investors decided to sell the pound despite the cost of running short positions. The interest rate differential has assumed a lesser importance because overseas holders of sterling are more concerned about the apparent rift between Mrs Margaret Thatcher, the Prime Minister, and Mr Nigel Lawson the Chancellor, on economic policy. The situation was not helped by comments on Monday by Mr Lawson on his continued desire for putting the pound into the exchange rate mechanism of the European Monetary System, something that Mrs Thatcher and Sir Alan Walters, her personal financial adviser, are not yet committed to.

A denial of any difference of opinion by the Prime Minister in the House of Commons yesterday failed to have much effect. However, two rounds of intervention by the Bank of England selling dollars against sterling saw the pound finish above the day's lows. But most traders suggested that its slightly steadier tone reflected more a pause for breath after the sharp fall, rather than any new found respect for central bank intervention. Sterling's exchange rate index touched a low of 90.5 before closing at 90.8, still down from 91.0 at the opening and 91.2 on Monday.

Sterling closed at $1.5160, down from $1.5255 on Monday. Against the D-Mark it fell to DM3.0725 from DM3.0900 and Y226 in yen terms from Y227. Elsewhere, it finished at SFr2.6550 from SFr2.6775 and FFr10.4150 compared with FFr10.4650.

The dollar recovered from a weaker start to finish little changed from its overnight levels. The US Federal Reserve was joined by the Bank of Canada selling dollars. Earlier trading in Tokyo had seen the Bank of Japan selling an estimated $1bn.

The US unit closed in London at DM2.0260 from DM2.0250 and Y149.15 against Y148.80. Elsewhere, it finished at FFr6.8700 from FFr6.8600 and SFr1.7520 from SFr1.7550. On Bank of England figures, the dollar's exchange rate index was 74.0 against 73.9 on Monday.

CURRENCY RATES

June 13	Bank rate %	Special* Drawing Rights	European Currency Unit
Deutsche Mark	4.50	2.47744	2.07194
Neth Guilder	5.50	2.79378	2.33321
French Franc	9½	8.40334	7.03084
Italian Lira	13½	1788.01	1498.87
Japanese Yen	2½	180.347	152.269
Norway Krone	8	8.96601	7.48667
Spanish Peseta	-	159.302	133.205
Swedish Krona	9½	8.33431	6.96617
Swiss Franc	4.5	2.14986	1.78787
Greek Drach.	20½	212.481	177.832
Irish Punt	-	N/A	0.776276

† Sterling quoted in terms of SDR and ECU per £.
* All SDR rates are for June 12

CURRENCY MOVEMENTS

June 13	Bank of England Index	Morgan** Guaranty Changes %
Sterling	90.8	-19.7
U.S Dollar	74.0	-3.5
Canadian Dollar	104.3	+0.1
Austrian Schilling	106.4	+9.4
Belgian Franc	105.4	-6.4
Danish Krone	102.5	-2.3
Deutsche Mark	112.0	+19.7
Swiss Franc	106.4	+15.2
Guilder	109.8	+12.9
French Franc	98.6	-15.8
Lira	98.6	-19.3
Yen	136.1	+64.8

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) **Rates are for June 12.

OTHER CURRENCIES

June 13	£	$
Argentina	291.25 - 294.50	192.00 - 194.00
Australia	2.0460 - 2.0485	1.3485 - 1.3495
Brazil	1.7595 - 1.7685	1.1600 - 1.1650
Finland	6.8980 - 6.9180	4.4970 - 4.5010
Greece	262.60 - 267.60	172.50 - 175.30
Hong Kong	11.9095 - 11.9250	7.7870 - 7.7890
Iran	115.75*	75.10*
Korea(Sth)	1014.60 - 1022.80	664.20 - 669.60
Kuwait	0.45610 - 0.45780	0.29900 - 0.30000
Luxembourg	64.30 - 64.40	42.40 - 42.50
Malaysia	4.1565 - 4.1660	2.7150 - 2.7170
Mexico	3759.10 - 3767.70	2478.00 - 2482.00
N. Zealand	2.7030 - 2.7080	1.7810 - 1.7840
Saudi Ar.	5.7215 - 5.7250	3.7505 - 3.7515
Singapore	3.0035 - 3.0090	1.9630 - 1.9650
S. Af (Cm)	4.3270 - 4.3375	2.8385 - 2.8400
S. Af (Fn)	6.3145 - 6.4485	4.1550 - 4.2195
Taiwan	39.95 - 40.05	26.15 - 26.20
U.A.E.	5.6020 - 5.6055	3.6720 - 3.6730

*Selling rate

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

June 13	Day's spread	Close	One month	% p.a.	Three months	% p.a.
W. Germany	2.0130 - 2.0310	2.0255 - 2.0265	0.46-0.44pfpm	2.67	1.17-1.13pm	2.27
Portugal	167.65 - 168.35	168.25 - 168.35	80-110cdis	-6.80	270-340dis	-7.27
Spain	129.45 - 130.45	130.10 - 130.20	48-58cdis	-4.89	165-175dis	-5.23
Italy	1456 - 1465½	1462¾ - 1463¼	2.60-3.20liredis	-2.38	9.50-10.20dis	-2.70
Norway	7.27¾ - 7.31¾	7.30 - 7.30½	0.87-1.12oredis	-1.64	3.65-3.95dis	-2.08
France	6.82¾ - 6.88½	6.86¾ - 6.87¼	0.32-0.27cpm	0.52	0.50-0.35pm	0.25
Sweden	6.77¼ - 6.81¼	6.80½ - 6.81	0.99-1.14oredis	-1.88	3.15-3.40dis	-1.93
Japan	147.80 - 149.50	149.10 - 149.20	0.56-0.54ypm	4.43	1.54-1.50pm	4.08
Austria	14.17¼ - 14.27¾	14.27¼ - 14.27¾	3.00-2.50gropm	2.32	7.30-5.80pm	1.84
Switzerland	1.7385 - 1.7540	1.7515 - 1.7525	0.32-0.29cpm	2.09	0.85-0.81pm	1.90
ECU	1.0220 - 1.0270	1.0225 - 1.0230	0.30-0.40cdis	-4.11	0.10pm-0.20dis	-0.20

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 42.50-42.60.

EURO-CURRENCY INTEREST RATES

June 13	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	12⅞-12⅝	13½-13¼	14⅛-14	14½-14⅜	14⅝-14½	14⅞-14⅜
US Dollar	9⅞-9⅝	9¾-9⅝	9⅞-9⅝	9¾-9⅝	9⅛-9	9⅛-8⅞
Can. Dollar	12⅝-12⅜	12½-12¼	12⅜-12⅛	12⅛-11⅞	11⅝-11⅜	11⅛-10⅞
D. Guilder	6⅝-6⅜	6⅞-6⅝	7⅛-6⅞	7⅛-7⅛	7⅜-7⅛	7⅜-7⅛
Sw. Franc	7¼-7⅛	7⅜-7⅛	7⅛-7⅛	7⅜-7⅛	7⅜-7⅛	7⅜-7⅛
Deutschmark	6⅝-6½	6⅞-6⅞	6⅞-6⅞	7⅛-6⅞	7⅛-7	7⅛-7⅛
Fr. Franc	8⅞-8⅞	8⅞-8⅞	8⅞-8⅞	9-8⅞	9⅛-8⅞	9⅛-9
Italian Lire	11-9	12-11	12-11½	12-11½	12-11⅞	12⅛-12
B. Fr. (Fin)	8-7⅛	8⅞-8⅞	8⅞-8⅞	8⅞-8⅞	8⅞-8⅞	8⅞-8⅞
B. Fr. (Con.)	8⅛-7⅞	8⅞-8⅞	8⅞-8⅞	8⅞-8⅞	8⅞-8⅞	8⅞-8⅞
Yen	5-4⅞	5⅛-4⅞	5⅛-5⅛	5⅛-5⅛	5⅞-5⅛	5⅞-5⅛
D. Krone	8⅞-8⅞	8⅞-8⅞	8⅞-8⅞	9⅞-9⅛	9⅞-9⅞	9⅞-9⅞
Asian $Sing	9⅞-9⅛	9⅞-9⅛	9⅞-9⅞	9⅞-9⅛	9⅛-8⅞	9⅛-8⅞

Long term Eurodollars: two years 9-8⅞ per cent; three years 9-8⅞ per cent; four years 9-8⅞ per cent; five years 9-8⅞ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

June 13	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.516	3.073	226.0	10.42	2.655	3.458	2218	1.823	64.35
$	0.660	1	2.027	149.1	6.873	1.751	2.281	1463	1.203	42.45
DM	0.325	0.493	1	73.54	3.391	0.864	1.125	721.8	0.593	20.94
YEN	4.425	6.708	13.60	1000.	46.11	11.75	15.30	9814	8.066	284.7
F Fr.	0.960	1.455	2.949	216.9	10	2.548	3.319	2129	1.750	61.76
S Fr	0.377	0.571	1.157	85.12	3.925	1	1.302	835.4	0.687	24.24
H Fl.	0.289	0.433	0.889	65.36	3.013	0.768	1	641.4	0.527	18.61
Lira	0.451	0.683	1.385	101.9	4.698	1.197	1.559	1000.	0.822	29.01
C $	0.549	0.832	1.686	124.0	5.716	1.456	1.897	1217	1	35.30
B Fr.	1.554	2.356	4.775	351.2	16.19	4.126	5.374	3447	2.833	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

Weak pound prompts selling

SHORT STERLING futures continued to weaken in active trading on Liffe yesterday, as traders feared that the pound is set for a further period of weakness. The September contract traded over 40,000 lots, opening at the day's peak of 85.57 and falling to a low of 85.27.

There was a partial rally as rates on the cash money market fell back, but still finished higher on the day. The slight easing of pressure, after interest rates moved up sharply in early London trading, encouraged dealers to take profits in futures, but without any conviction that the market has seen the worst.

Technical support levels have all been broken, as far as short sterling is concerned, and while the market remains so nervous about the pound and interest rates there still appears to be scope for a further fall.

One trader said he believed a rise in UK base rates is almost certain and that unless there is an early pre-emptive move to 15 per cent there was a risk that rates could eventually be forced up to 16 or even 17 per cent.

This simply provides continued reason to be short of the short sterling contract. Upward resistance is seen at 85.57 and 85.62, but last night's close of 85.42 did not suggest these levels are likely to be tested in the near future.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
88	362	432	18	36
89	309	348	29	52
90	224	304	44	108
91	143	229	63	133
92	109	160	129	200
93	47	131	203	235
94	29	108	249	312

Estimated volume total, Calls 2606 Puts 3518
Previous day's open int. Calls 9013 Puts 14377

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
90	643	706	17	54
92	459	533	33	117
94	322	408	60	156
96	205	261	143	245
98	110	163	248	347
100	42	122	416	506
102	21	57	569	641

Estimated volume total, Calls 31 Puts 234
Previous day's open int. Calls 2682 Puts 2597

LIFFE BUND FUTURES OPTIONS

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
9300	175	191	26	59
9350	137	159	38	77
9400	103	130	54	98
9450	77	105	78	123
9500	55	83	106	151
9550	37	65	138	183
9600	25	50	176	218

Estimated volume total, Calls 1817 Puts 440
Previous day's open int. Calls 9451 Puts 7438

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike Price	Calls-settlements Jun	Calls-settlements Jul	Puts-settlements Jun	Puts-settlements Jul
135	—	—	—	—
140	1165	1165	0	15
145	665	668	0	74
150	200	329	45	235
155	12	126	367	532
160	0	36	845	942
165	0	8	1345	1414

Estimated volume total, Calls 0 Puts 40
Previous day's open int. Calls 200 Puts 1600

LIFFE EURODOLLAR OPTIONS
$1m points of 100%

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
9025	54	111	1	7
9050	30	90	2	11
9075	9	71	6	17
9100	2	52	24	23
9125	1	36	48	32
9150	0	23	72	44
9175	0	15	97	61

Estimated volume total, Calls 100 Puts 5
Previous day's open int. Calls 5446 Puts 5522

LIFFE SHORT STERLING

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
8475	67	98	6	31
8500	47	82	11	40
8525	29	66	18	49
8550	13	51	27	59
8575	8	40	47	73
8600	2	30	66	88
8625	1	22	90	105

Estimated volume total, Calls 1398 Puts 3096
Previous day's open int. Calls 33428 Puts 34382

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT
£50,000 32nds of 100%

	Close	High	Low	Prev.
Jun	90-24			91-14
Sep	91-22	91-29	91-06	92-12

Estimated Volume 26429 (18134)
Previous day's open int. 23314 (23748)

7-10 YEAR 9% NOTIONAL GILT
£50,000 32nds of 100%

	Close	High	Low	Prev.
Jun	90-19			90-19
Sep				

Estimated Volume 0 (0)

PHILADELPHIA SE £/$ OPTIONS
£31,250 (cents per £1)

Strike Price	Calls Jun	Calls Jul	Calls Aug	Calls Sep	Puts Jun	Puts Jul	Puts Aug	Puts Sep
1.475	4.37	5.10	5.45	5.63	0.02	1.27	2.01	2.71
1.500	2.20	3.43	3.90	4.18	0.37	2.04	3.03	3.83
1.525	0.79	0.86	2.70	3.02	1.36	3.45	4.25	5.22
1.550	0.17	1.46	1.98	2.11	3.14	4.78	5.84	6.82
1.575	0.04	0.86	1.32	1.52	5.44	6.67	7.66	8.61
1.600	0.01	0.48	0.84	1.01	7.88	8.78	9.66	10.57
1.625	-	0.26	0.52	0.64	10.37	11.04	11.81	12.65

Previous day's open int: Calls 687,294 Puts 547,312 (All currencies)
Previous day's volume: Calls 24,616 Puts 49,789 (All currencies)

CHICAGO

FT-SE 100 INDEX
£25 per full index point

	Close	High	Low	Prev.
Jun	212.45	213.30	212.00	213.60
Sep	217.15	218.00	216.70	218.25

Estimated Volume 5068 (3595)
Previous day's open int. 21928 (21515)

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.5160	1.5099	1.4969	1.4762	1.4446

IMM-STERLING $s per £

	Latest	High	Low	Prev.
Jun	1.5180	1.5240	1.5166	1.5260
Sep	1.4978	1.5038	1.4968	1.5054
Dec	1.4770	1.4812	1.4750	1.4864

EUROPEAN OPTIONS EXCHANGE

TOTAL VOLUME IN CONTRACTS: 54,043
A=Ask B=Bid C=Call P=Put

MONEY MARKETS

Rates below peak

INTEREST RATES finished below the day's peak on the London money market yesterday, on speculation that the UK authorities may be more willing to allow sterling to fall than to sanction another rise in bank base rates. Three-month sterling interbank touched 14½-14⅜ per cent, but eased back to finish at 14⅜-14¼ per cent compared with 14⅛-14¼ per cent on Monday.

Nevertheless, trading remained very nervous ahead of tomorrow's figures on UK average earnings and Friday's publication of May retail prices, amid suggestions that the Government may yet have its hand forced on higher interest rates.

UK clearing bank base lending rate 14 per cent from May 24

Day-to-day credit conditions were tighter in London and the market was generally keen to sell bills to the Bank of England, on fears of higher interest rates.

The Bank of England initially forecast a credit shortage of £200m, but revised this to £350m at noon. Before lunch the authorities bought £370m bills outright, by way of £30m Treasury bills in band 1 at 13⅞ per cent; £293m bank bills in band 1 at 13⅞ per cent; £1m Treasury bills in band 2 at 13¾ per cent; and £26m bank bills in band 2 at 13¾ per cent. The authorities did not operate in the market in the afternoon.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £125m, with Exchequer transactions absorbing £85m and bank balances below target £75m. These outweighed a fall in the note circulation adding £80m to liquidity.

In New York the Federal Reserve drained money from the banking system through overnight matched sale and repurchase agreements, when Federal funds were trading at 9⅝ per cent. The market expected the Fed to withdraw liquidity, but via two-day matched sales.

In Frankfurt call money remained firm at at around the 6.50 per cent Lombard emergency funding rate. Banks borrowed money ahead of June tax payments. These are expected to drain some DM16bn from the banking system at the end of this week.

Upward pressure on rates was also a reflection of the strength of the D-Mark, although dealers do not expect tomorrow's Bundesbank council meeting to result in higher official interest rates in West Germany.

The Bundesbank offered funds to the domestic money market yesterday, via a variable rate securities repurchase agreement tender.

FT LONDON INTERBANK FIXING

(11.00 a.m. June 13) 3 months US dollars		6 months US Dollars	
bid 9⅛	offer 9⅛	bid 9⅛	offer 9⅛

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK

Lunchtime		Treasury Bills and Bonds			
Prime rate	11	One month	8.48	Three year	8.33
Broker loan rate	10½-¾	Two month	8.48	Four year	8.32
Fed funds	9⅜	Three month	8.41	Five year	8.26
Fed. funds at intervention	9⅛	Six month	8.27	Seven year	8.27
		One year	8.40	10-year	8.23
		Two year	8.39	30-year	8.20

June 13	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	6.40-6.50	6.55-6.70	6.70-6.85	6.90-7.05	7.00-7.15	6.50
Paris	8⅞-8⅞	8⅛-8⅞	8⅛-8⅞	8⅛-8⅞	8⅞-8⅞	7.25
Zurich	6⅞-7⅛	7⅛-7⅛	-	7⅛-7⅛	-	-
Amsterdam	6.70-6.85	7.06-7.12	-	7.22-7.30	-	-
Tokyo	4⅞-4⅞	5⅛-5⅛	-	5⅞-5⅞	-	-
Milan	12⅛-12½	12⅛-12⅞	-	12⅛-12⅞	-	-
Brussels	5.35	8⅛-8½	-	8½-8⅞	-	-
Dublin	8½-8⅞	8½-8⅞	8⅞-9⅛	9⅛-9½	9⅞-9⅞	-

LONDON MONEY RATES

June 13	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	13½	13⅞	14⅛	14⅞	14⅞	14⅝
Interbank Bid	5	12⅞	13⅞	14⅛	14⅜	14⅛
Sterling CDs	-	-	14⅜	14½	14⅜	14¼
Local Authority Deps.	13¼	13¼	14	14⅜	14½	14¼
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	13	13⅞	13½	13⅞	-	-
Company Deposits	-	-	14⅛	14½	14⅝	14½
Finance House Deposits	-	-	14	14½	14½	14¼
Treasury Bills (Buy)	-	-	14⅛	14⅜	-	-
Bank Bills (Buy)	-	-	14⅛	14⅛	13⅞	-
Fine Trade Bills (Buy)	-	-	14⅞	14⅞	14⅞	-
Dollar CDs	-	-	9.35	9.20	9.05	8.95
SDR Linked Dep Offer	-	-	8½	8½	8½	8½
SDR Linked Dep Bid	-	-	8¼	8¼	8¼	8¼
ECU Linked Dep Offer	-	-	9	9¼	9¼	9⅛
ECU Linked Dep Bid	-	-	8⅞	8⅞	9⅛	9⅛

Treasury Bills (sell): one-month 13⅞ per cent; three months 13⅞ per cent; Bank Bills (sell): one-month 13⅞ per cent; three months 14 per cent. Treasury Bills: Average tender rate of discount 13.5509 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day May 31 1989. Agreed rates for period June 26, 1989 to July 25 1989, Scheme I: 14.02 p.c., Schemes II & III: 14.45 p.c. Reference rate for period April 29 to May 31, 1989, Scheme IV&V: 13.151 p.c. Local Authority and Finance Houses seven days notice others seven days' fixed. Finance Houses Base Rate 13½ from June 1 1989: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6), Deposit £100,000 and over held under one month 9½ per cent; one-three months 11 per cent; three-six months 11 per cent; six-nine months 11 per cent; nine-twelve months 11 per cent. Under £100,000 9½ per cent from December 1, 1988. Deposits withdrawn for cash 5 per cent.

BASE LENDING RATES

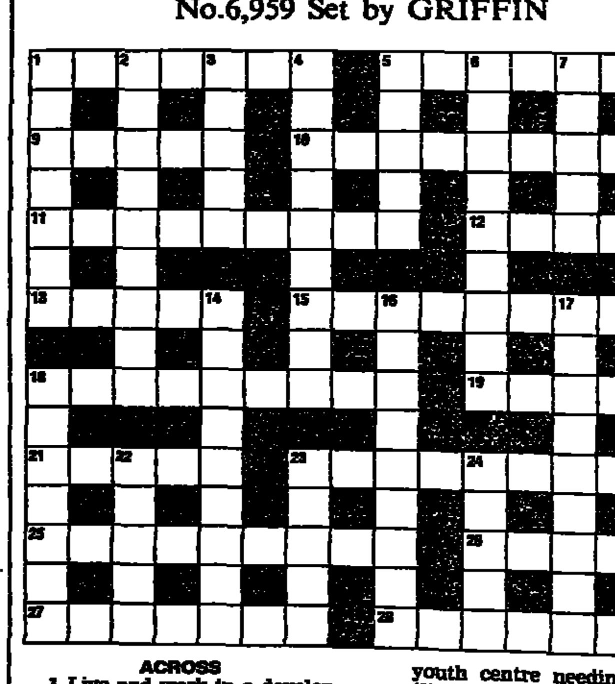
	%		%		%
ABN Bank	14	Clydesdale Bank	14	NatWestminster	14
Adam & Company	14	Comm. Bk. N. East	14	Northern Bank Ltd	14
AAB - Allied Arab Bk	14	Co-operative Bank	*14	Norwich Gen. Trust	14
Allied Irish Bank	14	Coutts & Co	14	PRIVATbanken Limited	14
● Henry Ansbacher	14	Cyprus Popular Bk	14	Provincial Bank PLC	15
Associates Cap Corp	14	Dunbar Bank PLC	14	R. Raphael & Sons	14
Authority Bank	14	Duncan Lawrie	14	Roxburghe G'rantee	14½
● B & C Merchant Bank	14	Equatorial Bank plc	14	Royal Bk of Scotland	14
Bank of Baroda	14	Exeter Trust Ltd	14½	Royal Trust Bank	14
Banco Bilbao Vizcaya	14	Financial & Gen. Bank	14	● Smith & Williamson Secs.	14
Bank Hapoalim	14	First National Bank Plc	15	Standard Chartered	14
Bank Credit & Comm	14	● Robert Fleming & Co.	14	TSB	14
Bank of Cyprus	14	Robert Fraser & Ptnrs.	14½	United Bk of Kuwait	14
Bank of Ireland	14	Girobank	14	United Mizrahi Bank	14
Bank of India	14	● Guinness Mahon	14	Unity Trust Bank Plc	14
Bank of Scotland	14	HFC Bank plc	14	Western Trust	14
Banque Belge Ltd	14	● Hambros Bank	14	Westpac Bank Corp.	14
Barclays Bank	14	Heritable & Gen Inv Bank	14	Whiteaway Laidlaw	14
Benchmark Bank PLC	14	● Hill Samuel	§14	Yorkshire Bank	14
Berliner Bank AG	14	C. Hoare & Co.	14		
Brit Bk of Mid East	14	Hongkong & Shangh.	14		
● Brown Shipley	14	● Leopold Joseph & Sons	14		
Business Mtge Tst	14½	Lloyds Bank	14		
CL Bank Nederland	14	Meghraj Bank Ltd	14		
Central Capital	14	McDonnell Douglas Bank	14		
● Charterhouse Bank	14	Midland Bank	14		
Citibank NA	14	Mortgage Express Ltd.	‡13.75		
City Merchants Bank	14	Mount Banking	14		
		Nat Bk. of Kuwait	14		

● Members of British Merchant Banking & Securities Houses Association. * Deposit now 5.9% Sumwise 8.5%. Top Tier-£10,000+ instant access 12.8% ‡ Mortgage base rate. § Demand deposit 9%. Mortgage 13.25% - 14%

JOTTER PAD

CROSSWORD

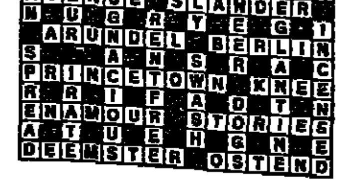
No.6,959 Set by GRIFFIN



ACROSS
1 Live and work in a development plant (7)
5 Something thrown by a woman? I'll say (7)
9 Proprietor upset now the soldiers have returned (5)
10 Pub employee uses skill during drinking bout (9)
11 Underworld storm in fire (9)
12 Refuse to back cunning mum (5)
13 Heard why idle butcher is to resign (5)
15 Once in fit shape shows cause of illness (9)
18 Before spinning wheels start in another place (9)
19 Also open around mid-morning for advances (5)
21 Dad gets through a set of questions (5)
23 Excessive fear of a crowd I dispersed with religion (9)
25 Standing next to a team yearn to go in (9)
26 Informed about student's bad language (5)
27 New thing that is worn by retiring ladies (7)
28 When allowed about nine brewed mild (7)

DOWN
1 Lady in distress follows brother generally (7)
2 Grammar School heads introducing strange new hoods (9)
3 A point and a half that Ron raised first (5)
4 Are being awkward about youth centre needing fruit (9)
5 "Russian leader" is in some kind of code (5)
6 Doubtful about engineer's revolutionary plastic (9)
7 Home help returns to the country (5)
8 Bring in container for article made of clay (7)
14 Utterly depressed Conservatives (9)
16 Part of the cycle is broken - feel where (9)
17 Dull Ian moved back in with friend (9)
18 Account for one's former wife getting outspoken (7)
20 Old Bob left on time, being cunning (7)
22 Spike has porn complex by middle age (5)
23 Kept out of sight during church lecture (5)
24 Erin's burst and swelled up (5)

Solution to Puzzle No.6,958



WORLD STOCK MARKETS

AUSTRIA

June 13	Sch	+ or −
Austrian Airlines	2,400	−10
Creditanstalt	2,740	—
Goesser	4,150	−60
Interunfall	17,120	—
Jungbunzlauer	16,600	—
Laenderbank	460	−15
Perlmooser	1,210	+50
Reininghaus	1,510	+5
Semperit	228	+7
Steyr-Daimler	111	—
Veitscher Mag	905	−33
Verbund	191	+1

BELGIUM/LUXEMBOURG

June 13	Frs.	+ or −
B.B.L.	3,550	+20
Bank Intl. a Lux	15,100	—
Banque Gen. Du Lux	14,500	—
Banque Nat. Belg	37,475	+425
Bekaert B	14,750	+50
Ciment CBR	6,960	+20
Cobepa	5,860 xr	+90
Do. AFV 1	5,850	−10
Do. AFV 2	5,800	−100
Cockerill	368	—
Colruyt	15,700	+300
Delhaize	5,510	−50
EBES	4,680	−40
Do. AFV 1	4,625	+30
Do. AFV 2	4,590	+25
Fabrique Nat	820	—
GIB Group	1,304	−6
Do. AFV	1,990	+20
GBL (Brxl)	4,565	+55
Do. AFV 1	4,485	+35
Do. AFV 2	4,450	—
Gechem	1,050	+22
Do. AFV	1,002	+2
Generale Bank	6,050	+20
Do. AFV 1	6,090	+10
Do. AFV 2	6,260	−230
Gevaert	8,510	+130
Hoboken	17,750	—
Do. AFV	17,350	—
Intercom	3,650	—

FRANCE (continued)

June 13	Frs.	+ or −
Arjomari-Prioux	2,635	+35
Auxiliaire d'Ent	1,083	+13
BIC	771	—
BSN	654	—
Bancaire Cie	526	−4
BHP (Cert. Inv.)	364	+1
Beghin-Say	702	+4
Do. Certs	483	+1
Bongrain	3,059	+10
Bouygues	655	+3
CMB Packaging	675	−24
Carrefour	3,179	−11
Casino	215	−1
Cetelem	639	+15
Chargeurs	1,332	−8
Ciments Fr.	1,540	+1
Club Mediterranee	663	−6
Cofimeg	349	+4
Coplfi	370	—
CGE	462	+1
Casorex	336	+4
Cred Foncier Fr	881	−16
Credit National	1,095	−5
Darmart	3,050	+2
Docks de France	3,830	−24
Dollfus-Mieg	557	−2
Dumez S.A.	1,014	+3
Eaux (Cie Gen)	2,000	−10
Ecco	2,170	−10
Electrofin'ce	1,005	−1
Elf-Aquitaine	547	−2
Do. Certs	426	+4
Essilor-Bertrand	1,270	−40
Essilor	3,425	+25
Eternit (Fin.)	2,800	−20
Eurafrance	1,625	−5
Eurocom	1,350	+6
Euromarche	3,040	−30
Exor	1,571	—
Finextel	220	−1
Fonciere Lyons	495	+5
Fromageries	1,900	−2
GTM-Entrepose	1,470	−5
Gaumont (Soc N)	630	+17
Geo-Geophysique	830	—
Gen. Occidentale	879	−11

INDICES

NEW YORK — DOW JONES

	June 12	June 9	June 8	June 7	1989 High	1989 Low	Since compilation High	Since compilation Low
♦Industrials	2518.66	2513.42	2516.9	2512.32	2518.66 (12/6)	2144.64 (3/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	92.32	92.23	91.83	91.89	91.89 (7/6)	87.35 (23/3)	—	—
Transport	1154.59	1148.12	1145.70	1145.86	1165.99 (26/5)	959.95 (3/1)	1168.99 (26/5/89)	12.32 (8/7/32)
Utilities	206.50	206.44	206.32	205.96	206.50 (12/6)	181.84 (24/2)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2528.17 (2535.64) Low 2484.78 (2494.85)

STANDARD AND POOR'S	June 12	June 9	June 8	June 7	1989 High	1989 Low	Since compilation High	Since compilation Low
Composite ‡	326.25	326.70	326.75	326.95	326.95 (7/6)	275.31 (3/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	373.21	373.53	373.58	373.82	373.82 (7/6)	318.66 (3/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	31.21	31.35	31.34	31.22	31.35 (9/6)	24.30 (3/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	182.14	182.37	182.39	182.34	182.37 (9/6)	154.98 (3/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	365.89	366.10	366.00	364.41	366.16 (9/6)	305.24 (3/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	453.39	453.65	453.99	453.20	453.65 (9/6)	378.56 (3/1)	455.28 (26/8/87)	54.87 (31/10/72)

	Jun 9	Jun 2	May 26	year ago (approx.)
Dow Industrial Div. Yield	3.52	3.51	3.38	3.54

	June 7	May 31	May 24	year ago (approx.)
S & P Industrial div. yield	2.98	3.02	3.03	2.94
S & P Indl. P/E ratio	13.75	13.53	13.46	15.35

TRADING ACTIVITY † Volume Millions	June 12	June 9	June 8
New York	151,460	175,194	211,021
Amex	12,628	12,402	14,865
OTC	125,562	140,442	155,958

NEW YORK	June 12	June 9	June 8
Issues Traded	1981	1989	1987
Rises	716	750	831
Falls	758	747	649
Unchanged	507	492	507
New Highs	122	183	220
New Lows	13	12	11

CANADA

TORONTO	June 12	June 8 9	June 8	June 7	1989 High	1989 Low
Metals & Minerals	3452.6	3463.1	3475.5	3439.0	3564.9 (6/2)	3207.5 (3/1)
Composite	3805.1	3802.5	3806.1	3785.8	3806.1 (8/6)	3350.5 (6/1)
MONTREAL Portfolio	1946.82	1948.46	1941.57	1929.11	1948.46 (9/6)	1677.48 (3/1)

NEW YORK ACTIVE STOCKS

	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Burling Res	9,235,104	44⅞	+ 1	Eastman Kodak	1,798,400	49⅝	− ⅝
Paramount Comm	2,825,100	57	− 1⅛	BankAmerica	1,759,700	27⅞	+ ⅛
Pac Gas & Elec	2,131,200	19⅞		Time	1,511,400	175	+ 4⅞
Warner Comms	1,924,200	54½	− 1⅛	USX Corp	1,299,500	37⅝	− ⅛
IBM	1,918,800	108⅞	+ ⅛	Ford Motor	1,291,900	49	+ ⅛

Base values of all indices are 100 except NYSE All Common − 50; Standard and Poor's − 10; and Toronto Composite and Metals − 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	June 13	June 12	June 9	June 8	1989 High	1989 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1541.3	(c)	1543.9	1545.4	1583.7 (25/5)	1412.9 (7/4)
All Mining (1/1/80)	699.7	(c)	701.9	702.0	727.0 (26/1)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	350.43	349.02	345.47	338.43	350.43 (13/6)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6158.43	6128.37	6128.48	6114.03	6158.43 (13/6)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	325.61	322.01	319.40	316.15	325.61 (13/6)	275.49 (27/2)
FINLAND						
Unitas General (1975)	801.8	802.3	809.6	808.2	815.8 (18/4)	723.3 (4/1)
FRANCE						
CAC General (31/12/82)	484.6	486.3	487.9	483.9	487.9 (9/6)	417.9 (4/1)
Ind. Tendance (30/12/88)	115.9	114.5	114.3	114.2	114.5 (5/6)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	597.87	600.12	600.91	600.96	600.96 (8/6)	535.78 (27/2)
Commerzbank (1/12/53)	1775.2	1782.0	1783.6	1785.4	1785.4 (8/6)	1595.7 (27/2)
DAX (30/12/87)	1429.11	1436.67	1437.29	1438.73	1438.73 (8/6)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2355.19	2440.21	2268.38	(c)	3309.64 (15/5)	2093.61 (5/6)
ITALY						
Banca Com. Ital. (1972)	638.62	631.60	629.93	628.68	638.62 (13/6)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	33213.55	33398.01	33639.98	33718.2	34266.75 (31/5)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2464.14	2483.76	2503.41	2504.73	2544.60 (8/5)	2366.91 (6/1)
NETHERLANDS						
CBS Tti.Rtn.Gen.(End 1983)	247.8	(u)	247.7	247.5	247.8 (13/6)	208.3 (3/1)
CBS All Shr (End 1983)	193.0	(u)	192.9	192.8	193.0 (13/6)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	627.34	625.49	618.73	616.37	665.61 (19/4)	467.17 (2/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1283.84	1276.48	1241.21	1207.11	1310.02 (17/5)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1428.0ϕ	1428.0	1485.0	1516.0	1639.0 (23/3)	1291.0 (15/2)
JSE Industrial (28/9/78)	2509.0ϕ	2492.0	2514.0	2517.0	2581.0 (28/4)	1961.0 (3/1)
SPAIN						
Madrid SE (30/12/85)	315.90	316.14	314.52	313.54	315.90 (13/6)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	4073.3	4060.7	4053.4	4039.0	4073.3 (13/6)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	716.3	718.6	716.4	706.2	716.4 (9/6)	613.1 (3/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	491.2	497.5	502.8	519.0 (17/2)	491.2 (28/3)

ϕ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX − 1,000 JSE Gold − 255.7 JSE Industrials − 264.3 and Australia, All Ordinary and Mining − 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Tuesday June 13 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Kawasaki Steel	20.7m	945	-19	Canon	8.9	1,830	0
Nippon Steel	17.1m	846	-5	MHI	8.4	1,140	-20
Toshiba	12.7m	1,360	-20	Kobe Steel	8.4	815	-16
Sumitomo Metal	11.0m	830	-7	NKK	7.8	82110	-18
Nippon Seiko	9.5 m	1,100	+10	Toho Rayon	6.8m	1,140	-30

3pm prices June 13

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
32⅛	21⅜	AAR	.44	1.4	21	61	31½	31⅛	31½	+ ⅛
10⅛	8⅜	ACM n	1.01	11.		76	9⅛	9⅛	9⅛	– ⅛
11⅞	10¼	ACMIn	1.20a	11.		414	11⅛	11	11	
10⅛	8½	ACM M	n1.01	11.		404	9⅜	9⅛	9⅛	– ⅛
11½	10	ACM Sc	1.26	12.		1219	11⅛	10⅞	10⅞	– ⅛
10	8⅜	ACMSp	1.01	11.		338	9⅜	9⅜	9⅜	– ⅛
17¼	10⅞	AL Lab	.12	.7	18	408	17⅛	16⅞	16⅞	– ¼
4⅝	3¼	AMCA	.12e	3.1	26	27	3⅞	3⅞	3⅞	– ⅛
6⅞	3½	AM Intl				680	5½	5⅜	5⅜	– ⅛
23½	18½	AM In pf	2	9.2		6	21⅝	21⅝	21⅝	+ ⅛
65⅞	40⅞	AMR			7	3540	61⅛	60½	60⅞	– ⅜
27	25	ANR pf	2.67	10.		1	25⅞	25⅞	25⅞	+ ⅛
24⅞	23⅛	ANR pf	2.12	8.7		2	24½	24½	24½	
9½	3¼	ARX				423	4	3⅞	3⅞	– ½
45¼	35¼	ASA	3a	7.4		288	41	40⅞	40⅞	
22⅞	15¼	AVX	.24	1.1	10	404	22⅛	21⅞	22⅛	– ⅛
61¼	43½	AbtLab	1.40	2.4	17	1882	59½	58¾	59	– ⅞
19	16⅛	AbitIbi g	1			73	16⅞	16⅛	16⅛	
13	7½	AcmeC	.40	3.1		104	13	12⅞	12⅞	
8	5⅞	AcmeE	.32	4.1	18	5	7⅞	7⅞	7⅞	+ ⅛
34⅞	20¼	Acuson			26	108	33½	33⅛	33½	+ ⅛
16⅞	14¼	AdaEx	1.82e	12.		275	15⅝	15⅛	15½	– ⅛
16⅞	7⅛	AMD				2110	10⅛	10	10⅛	– ⅛
10¼	6½	Adobe				96	9⅞	9⅜	9⅞	
18⅞	16½	Adob pf	1.84	10.		13	18¼	18⅛	18⅛	– ⅛
21⅞	19⅞	Adob pf	2.40	11.		3	20⅞	20⅞	20⅞	+ ⅛
8⅞	6⅜	Advest	.12	1.7	17	29	7⅛	7	7⅛	
56¼	43½	AetnLf	2.76	5.0	9	611	55⅞	55½	55⅝	– ⅛
13⅞	12⅜	AflPb n				5131	12⅞	12⅜	12½	– ⅛
23	14⅞	Ahmans	.88	4.0	10	6177	22⅞	21¼	21¼	– ⅞
4⅝	2⅞	Aileen				68	3⅛	3	3	– ⅛
58⅞	37⅞	AirPrd	1.20	2.8	11	851	43⅞	43¼	43¼	– ⅞
28⅞	16½	AirbFrt	.60	2.2	25	131	27⅜	26⅞	27	
24½	13⅜	Airgas			14	202	24⅛	23⅞	23½	– ⅛

Continued on Page 49

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	12 Month Low	Stock	Div.	Yld.%	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
19¾	8¾	vjPNH pfC				6	12⅝	12⅛	12⅝	
18½	6½	vjPNH pfD				17	11¾	11	11⅝	+ ⅜
18	6⅝	vjPNH pfE				6	11⅞	11¾	11⅞	
15¾	6¼	vjPNH pfF				2	10¾	10½	10¾	+ ⅛
15¼	6½	vjPNH pfG				52	11¾	11¼	11¾	+ ½
15⅞	10⅝	PSvNM .38j				1367	14	13¾	13⅞	− ⅛
26¾	22	PSEG	2.04	7.9	10	1215	26⅛	25½	25⅞	− ½
48½	40¼	PSEG pf4.08		9.2		z20	44½	44½	44½	−1
56¾	49⅛	PSEG pf5.05		9.0		z30	56	56	56	− ⅝
74	66½	PSEG pf6.80		9.2		z150	u74⅛	74⅛	74⅛	+ ⅛
84	77⅞	PSEG pf8.08		9.7		z100	83	83	83	
3⅝	1⅝	Publick				46	3	2⅞	3	
51¼	37	PR Cem	.85e	1.4	8	29	46⅞	46½	46⅝	+ ⅛
20⅛	18	PugetP	1.76	8.9	9	433	20	19¾	19⅞	− ⅛
8⅝	7½	PHICB	.85	11.		224	8	7⅞	7⅞	− ⅛
10⅛	9⅞	PHYM	n			469	10	9⅞	9⅞	
10⅞	8⅝	PIGIT	1.01	11.		894	9½	9¼	9½	+ ¼
10⅛	9⅝	PMMI	n.09e	.9		421	10	9⅞	10	
10	8⅝	PMIIT	1.03a	11.		759	9⅛	9	9⅛	
9⅞	8⅝	PMIT	1.10a	12.		448	9½	9⅜	9½	
9⅞	8⅞	PPrIT	1.14	12.		1801	9⅝	9½	9⅝	
11	5⅛	Pyro			76	1003	10⅝	10⅜	10½	
10¼	6	QMS				414	8⅝	8⅜	8½	+ ⅛
1⅜	5-16	Quantel			1	119	9-16	½	½	
62½	42⅞	QuakrO	1.20	2.0	19	2084	61¼	61	61⅛	− ⅜
25	15⅞	QuakSC	.80	4.8	36	324	17	16¾	16⅝	− ⅜
19	11⅞	Quanex	.32	2.0	7	191	15¾	15½	15⅝	+ ¼
31¾	25⅞	Quanx pf2.28		8.0		45	28½	28⅜	28⅝	
59½	42	Quantm	3	7.1	3	2132	42½	d41⅝	42	− ⅝
12	9¾	QstV1	1.20e	10.		164	12	11⅞	11⅞	− ⅛
11¾	7¼	QstVC				949	11⅝	11⅜	11⅝	

OVER-THE-COUNTER

Nasdaq national market, 3pm prices June 13

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
Reynrd	.47	26	79	13⅞	13½	13½	− ⅛
Rehvest		513	271	5⅝	5⅛	5⅛	
RgcyCr		26	550	2⅛	2 1-16	2 1-16	− 1-16
RegilBc	.48	14	64	17¾	17¼	17¾	+ ½
RelTch		22	215	10¼	9⅞	10⅛	− ¼
Repligen			127	9⅝	9	9	− ⅝
ReutHd	.51e	20	2781	36	35½	35½	− ¾
Ribxon		9	686	7⅞	7¼	7⅞	
RichEl	.16	14	801	16⅞	16¼	16⅞	+ ⅜
RigsNt	1.25	10	111	25	24½	25	+ ½
RoadSv	1.10	15	3210	30¾	30¼	30¼	− ⅝
RbtNlf		17	877	19	18¾	18¾	− ¼

−X−Y−Z−

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
XL Dta s		19	283	23	22½	22½	
XOMA			1784	u19⅞	19	19¼	− ⅛
Xicor		9	1465	7⅞	7⅛	7⅛	− ¼
YellowF	.70	11	670	27⅞	27½	27⅞	
ZionUt	1.44		9	25¾	25	25	
Zycad			40	3⅝	3⅛	3⅜	− ⅛

AMEX COMPOSITE PRICES

3pm prices June 13

AMERICA

Dollar effect triggers sharp losses

Wall Street

THE FIRST concrete sign that the strong dollar may have started denting corporate profits sent the stock market sharply lower yesterday, *writes Janet Bush in New York.*

The selling was most marked in the pharmaceuticals sector following the statement by Pfizer that it expected its second quarter earnings to fall by between 30 per cent and 40 per cent. Analysts had expected a modest decline in earnings because of a large build up of inventories during the first quarter, competitive pressures and the strong dollar. The forecast from Pfizer was far worse than expected.

At 2pm, the Dow Jones Industrial Average was quoted 16.04 lower at 2,502.80 on moderate volume of 108m shares. The broader Standard & Poor's 500 index was 2.65 lower at midsession at 323.59, the American Stock Exchange index was down 2.33 points at 363.56 and the Nasdaq Composite declined 3.65 points to 449.74.

Falls in other indices provided evidence that Pfizer's announcement had led to a more general re-evaluation of the outlook for corporate earnings. For some time now, analysts have been wondering when the stock market would start to worry about earnings, given a broad deceleration in the economy and a strong (and rallying) dollar.

The substantial rally this year has been based on relief that the economy is slowing and that, therefore, inflation will soon peak; corporate earnings have not been an issue. That seemed to change yesterday.

Despite repeated reports of intervention by the US Federal Reserve in New York yesterday, the dollar held at firm levels of Y148.00 and DM2.0180 at midsession. This was well off earlier highs but there has still been little dent in the dollar's overall strength.

The selling in the stock market came against a background of a falling US bond market which fell prey to profit-taking after its enormous rally over the last week. At midsession, the benchmark long bond was quoted a full point lower.

Pfizer itself plunged $3¼ to $57⅞, Merck dropped $1⅜ to $69⅞, Schering-Plough fell $1⅜ to $86⅞ and Eli Lilly lost $1⅞ to $55⅞.

Semiconductor stocks were also lower yesterday after a report showing that chip orders had softened in May. Motorola fell $1¼ to $53⅞ and Texas Instruments lost $⅞ to $42⅞.

Among individual stocks, Time piled on more gains, quoted $10 higher at midsession at $182⅞, on speculation that a number of companies and investment groups may be interested in bettering the $10.7bn offer from Paramount.

General Electric was the prime focus of speculation after an analyst at Drexel Burnham Lambert apparently said that GE might be interested in bidding for Time. Its stock fell $1⅛ to $52⅞. Paramount meanwhile added $⅞ to $57⅛ and Warner Communications, whose agreed merger with Time is currently in doubt, fell $1 to $53⅞.

Ashton-Tate fell $4 to $18⅞ after the company said it expected a second quarter loss of about $15m and might also post a loss in the third quarter.

Canada

CONCERN about forthcoming US statistics, together with falls in leading markets, sent Toronto stocks down at midsession.

The composite index slid 18.1 to 3767.1. Declines leading advances 270 to 158 on volume of 11.5m shares.

EUROPE

Fiat drives Milan to another peak

TRADING was subdued in most of Europe, but Italian shares continued their strong run, *writes Our Markets Staff.*

MILAN surged to a high for the year in strong volume centered on blue chips Fiat, Pirelli, Generali and CIR.

"The June trading account closes today and people are taking a bullish view of the next account. Many people are attributing the market's rise to *the pulling effect of Fiat,* but there must be more to it than that," said an analyst.

Volume was estimated at more than L300bn. The Comit index climbed 7.02 to 658.62.

Fiat ordinary rose 2 per cent at the fix to L9,982 and continued its advance in later trading to L9,995.

FRANKFURT continued to mark time amid further profit-taking on the gains of the past two weeks and caution about this week's economic numbers from the US. Interest switched from leading blue chips to special situations.

The FAZ index fell 2.35 to 597.87, while the DAX index lost 7.56 to 1,429.11 in moderate volume worth DM4.4bn.

Investors were hesitant in the face of yesterday's US retail sales figures, which came after the bourse closed, and the US April trade data and Bundesbank council meeting, both tomorrow. Sunday's European elections, which could bring further setbacks for the centre-right coalition, is another short-term obstacle.

BMW fell DM12 to DM558.50 on profit-taking after a sharp climb. Retailer Asko dropped DM43 to DM801 on news of a tax investigation.

Utilities were active, with Viag up DM10.70 at DM331 and RWE gaining DM6.30 to DM303.80. There was speculation, denied by WestLB bank, that it was seeking to sell its more than 40 per cent stake in metals group Preussag, up DM8.50 at DM308. RWE and Viag were rumoured to be buying.

PARIS was fairly quiet, with volume estimated to be similar to Monday's FFr1.86bn, and shares ended slightly lower.

The OMF 50 index eased 2.11 to 499.06 and the CAC 40 lost 1.23 to 1,749.81. The opening CAC General was down 1.7 at 484.6.

Hotel group Accor was strong, rising FFr17 to FFr718 amid speculative buying. The electronics sector showed some gains, with Crouzet, military and space equipment maker which is merging with some Thomson susidiaries, up FFr33 at FFr653. *CSEE, telecommunications* and armaments company, rose FFr6.80 to FFr410 on rumours of new orders.

Peugeot fell FFr23 to FFr1,645, after a newspaper article about US losses.

AMSTERDAM suffered towards the end of a dull but steady session from further losses on Wall Street. The CBS tendency index fell 0.6 to 186.1.

Hoogovens, the most actively traded stock, closed Fl 1.40 higher at Fl 111, but off its day's best. DAF, recently floated truck maker, lost 90 cents to Fl 56.10.

ZURICH closed mixed to easier as shares slipped from highs in lively profit-taking.

Ciba-Geigy, which declared on Monday it had no intention of using its SFr3.5bn in cash for making any acquisitions, saw its bearers fall SFr25 to SFr3,985.

MADRID eased on profit-taking after reaching another high for the year on Monday. Turnover remained healthy at about $120m and the general index was off just 0.24 at 315.90.

The latest domestic inflation figures are due on Friday and this is causing a bit of caution as usual, said one broker.

BRUSSELS ended slightly higher. FN, arms maker, rose BFr32 to BFr832 after France's Snecma confirmed it was taking a 51 per cent stake in subsidiary FN Moteurs.

STOCKHOLM reached a new high, helped by a strong rise in Ericsson free B shares, up SKr19 at SKr549 on bullish analyses from Swedish banks. The Affärsvärlden General index added 6 to 1,200.2.

● Johannesburg gold shares were little changed but industrials slightly firmer.

ASIA PACIFIC

Investors' spirits sink as yen falls further

Tokyo

SPIRITS sank further on the Japanese market yesterday as the dollar continued its relentless rise against the yen and share prices drifted lower in listless trading, *writes Michiyo Nakamoto in Tokyo.*

The overnight gain on Wall Street gave investors a measure of encouragement in early trading and buying from index funds seemed to spark a rebound on bargain-hunting. The Nikkei average began the day on a buoyant note, rising more than 150 points just after the opening.

But currency concerns once again took over during the day as the yen continued to slip against the dollar. After fluctuating during the day the index closed down 184.46 at 33,213.55. The day's high was 33,555.51 while the low was 33,135.05. Declines more than trebled advances by 705 to 188 while 175 issues were unchanged.

Turnover remained very low at 527m shares, but up from Monday's paltry 343m. The Topix index of all listed shares lost 19.62 to 2,464.14 and in London the ISE/Nikkei 50 index shed 1.27 to 1,965.80.

Analysts said investors had more or less come to accept the yen's fall to the level of Y150 to the dollar, but its continuing decline was an undeniable discouragement to the market.

While the dollar's strength was attributed to various factors, there was also growing acceptance that political factors in Japan were contributing to the yen's weakness.

The scandal involving the ex-mistress of Prime Minister Sousuke Uno and the impact it could have on the ruling Liberal Democratic Party's prospects in the elections to the upper house of the Diet (Parliament) were not only negative for the market but were also affecting the yen's weakness.

There was further speculation yesterday about another rise in the official discount rate.

Gains were mainly seen yesterday in issues with good business results and in special situations. Among the former was TDK, the world's largest maker of magnetic tape, which surged Y250 to a year's high of Y5,750 during the day. TDK attracted attention because of a decision by the Tokyo metropolitan government to use the company's ferrite tiles for the construction of its new head office. The company was also expected to double profits this year and still has a low price earnings ratio of 32. Even TDK, however, suffered profit-taking and closed up Y100 at Y5,600.

Leading issues remained out of favour in Osaka and the OSE average dropped 315.15 to 32,276.47.

Roundup

ATTENTION again turned in the Asian Pacific markets to Hong Kong, which slammed into reverse after continuing its steady acceleration on Monday.

HONG KONG came under strong selling pressure, particularly from American and UK investors, and lost nearly half the gains achieved in Monday's powerful rally. Some local bargain hunting cushioned the fall in the afternoon.

The Hang Seng index fell 85.02 or 3.5 per cent, to close at 2,355.19 in the first drop since its 22 per cent plunge on June 5. Turnover, at HK$1.67bn, was well down on Monday's HK$2.24bn.

"Hong Kong was asking for it," said a regional analyst. "We saw some profit-taking on the back of the bounce. Eventually the sellers were going to get the upper hand."

Blue chips topped the active list. Cheung Kong shed 40 cents to HK$7.50, Hutchison slipped 25 cents to HK$8.15, and Swire Pacific A lost 60 cents to HK$14.70.

AUSTRALIA eased slightly at the end of a quiet trading day after the long weekend. The All Ordinaries index fell 2.6 to 1,541.3.

SINGAPORE ended mixed after an active day's trading rounded off by institutional buying and bargain hunting which enabled prices to recover from earlier losses. The Straits Times industrial index was up 7.36 at 1,283.84.

Mexican bolsa jumps on raised debt deal hopes

Richard Johns puts the latest surge into perspective

THE GAP, though narrowing, between Mexico and its commercial bank creditors on how to achieve a substantial reduction in the cost of servicing $54bn of public sector debt is still a very wide one.

But the Bolsa Mexicana de Valores, at least, has shown itself increasingly confident of a successful outcome, laying the basis for a quick resumption of sustained economic growth.

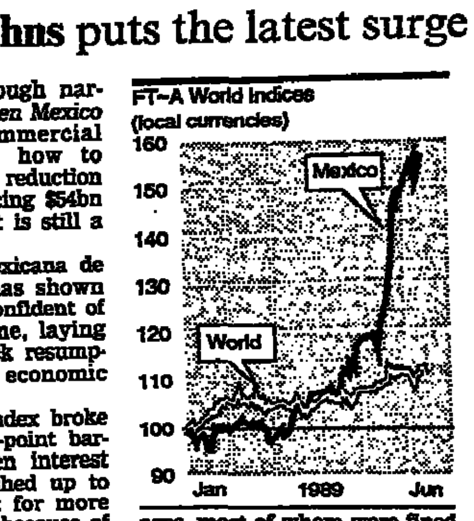
On May 26 the index broke through the 300,000-point barrier at a time when interest rates had been pushed up to their highest point for more than a year largely because of two years of capital flight. This Monday the index scored its biggest one-day rise since the October 1987 crash, jumping 12,308 to 333,910 – up 64 per cent on its low this year of 203,739, reached on January 10.

The main reason for this remarkable surge has been a growing conviction that the Government will reach a deal involving a substantial cut in net transfers abroad.

Oddly, the Mexican index faltered in January after the arrest of Mr Joaquin Hernandez Galicia, the seemingly all-powerful former boss of the petroleum workers. It did so again in February on the detention of Mr Edouardo Legorreta, chief of Operadora de Bolsa, together with three other brokerage executives, on charges of irregularities during the 1987 boom and crash.

However, the subsequent investigation of 148 employees and representatives of brokerages, most of whom were fined or suspended, helped to reinforce market confidence and increasing respect for President Carlos Salinas de Gortari's authority.

FT-A World Indices
(local currencies)



Over the past three months the market has seen an increasing volume of transactions. On the day the index broke through 300,000, more than 50m shares changed hands – three to four times as much as early in the year.

Mr Timothy Heyman, president of the Mexican stock market analysts' association and author of a recently published authoritative book on investment in Mexico*, points out that over the three months, bullish spurts have followed announcements raising hopes of a successful debt renegotiation. These comprised the Brady proposals for relief for heavily indebted countries, the $3.65bn credit agreement with the International Monetary Fund, the postponement of payments on commercial debt principal, the $1.96bn World Bank loan package, the easing of rules on foreign investment, and rescheduling by the Paris Club of official creditors.

The foreign investment regulations will allow non-Mexican individuals and institutions to invest in the bolsa, although they do not permit them to take control of any quoted companies or to have any voting rights. Access will not be possible until the Mexican Brokerage Houses Association has worked out a system of registration of foreign shareholders.

Another stimulus to the market has been a plan by the National Securities Commission to increase liquidity in what remains a very thin – and therefore volatile – market. Only about 30 of 200 quoted stocks trade actively.

Company reports for 1988 in general have done nothing to undermine confidence. Indeed, they have indicated great resilience in the face of a price freeze, lowered tariffs and a meagre 1.7 per cent economic growth.

A recent analysis by the newsletter Mexico Service showed average sales of 88 companies up by 106 per cent in 1988 – only slightly below a rise in the national producer price index of 108 per cent. Allowing for inflation, it calculates that real profits advanced by a healthy 112 per cent.

What at first sight appear to be astonishing results, however, are accounted for largely by the methodology used in calculating percentage changes from loss to profit – a swing from a 100m peso loss to a 100m peso profit has been recorded as a 200 per cent gain.

The methodology has justification, in so far as it reflects the remarkable turnround of a number of large companies as a result of debt rescheduling.

The fixed peso-dollar parity for 10 months of 1988 had a positive – although non-monetary – effect on balance sheets of companies with dollar debts, which, at interest rates far below those prevailing in Mexico, resulted in high negative real interest rates. These were calculated at minus 25 per cent by the Grupo Alfa, the country's largest holding company, which attributed half of its net income to extraordinary, non-recurring items.

The paradox is that the 300,000-point breakthrough occurred in a week when the interest rate on Cetes – the 28-day Treasury bills which are the most popular and predominant money market instrument because of their liquidity – was at its highest for over a year, yielding a real interest rate of about 3 per cent a month. At last week's auction they rose to 56.64 per cent.

To put the bolsa in perspective, it should be emphasised that trading in shares last year accounted for only about 2 per cent of all security market dealings and in the last week or so for a mere 1.6 per cent.

With the average share price still at only 75 per cent of book value – reckoned to be a better indicator of worth than price/earnings ratio because of problems with inflation accounting – the rally can hardly be said to have reached speculative proportions.

It should certainly be regarded as a vote of confidence in the future of the Salinas administration, however, as well as a sign of faith in the commercial bank creditors' willingness to compromise. And it raises the possibility, at least, of a substantial return of flight capital at some point in the future.

**Investing in Mexico: Mexican Economy and Financial Markets by Timothy Heyman. Published by Editorial Milenio, price $50. Available by mail order from Rio Mississippi, 61, Mexico DF 06500.*

Little trade as Brazil reopens

BRAZIL'S stock markets reopened yesterday after the closure on Monday but there was almost no trading, *writes John Barham in Sao Paolo.*

The Government had ordered that dealing in any share would be suspended if prices oscillated by more than 10 per cent.

As a result, trading halted 10 minutes after the Rio de Janeiro and Sao Paulo markets opened.

The authorities said that Mr Naji Nahas, the country's leading investor who provoked the crisis on the stock markets, would have all his positions cancelled. It also forbade Mr Nahas, Mr Sergio Barcellos, president of the Rio de Janeiro Stock Exchange, and Mr Fernando Carvalho, a leading Rio broker, to leave the country. Mr Nahas' operations are being investigated by police.

Trading in Rio, where Mr Nahas was most active, fell 5.9 per cent to 354,299 points on the index. The exchange reported only 250 deals yesterday morning, 8 per cent of normal volume. Only one of the three most traded shares saw any activity.

An official at the Rio exchange said he expected business to return to normal within a week to 10 days. But he said: "Volume will fall, there will be less liquidity."

One Sao Paulo broker, who praised the decision to limit price movements, said the falling equity market could divert capital to the gold, currency black market and property.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

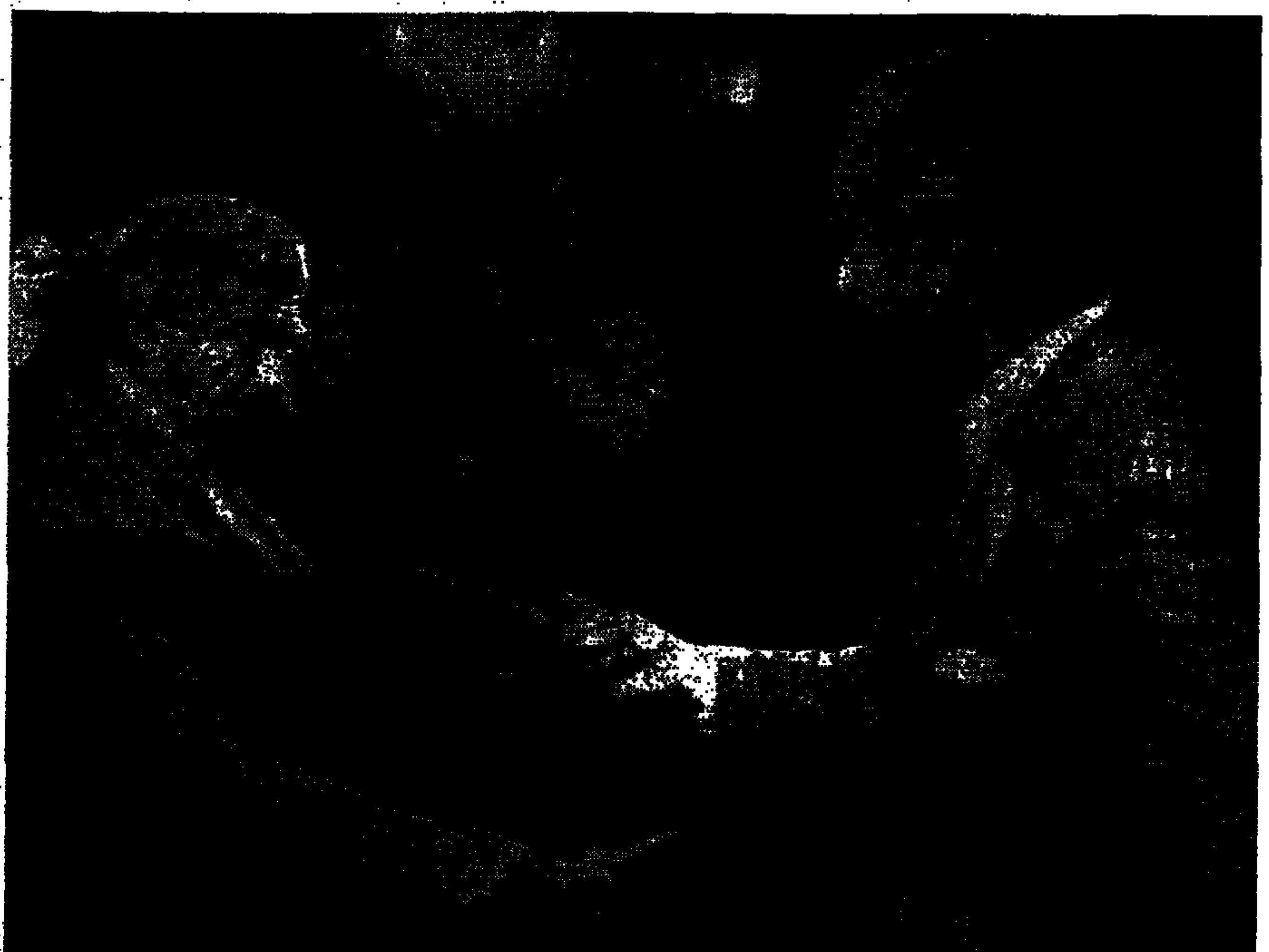
NATIONAL AND REGIONAL MARKETS	MONDAY JUNE 12 1989						FRIDAY JUNE 9 1989			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1989 High	1989 Low	Year ago (approx)
Australia (86)	129.78	−0.9	126.13	116.70	+0.0	5.04	130.89	124.80	116.70	157.12	128.26	144.22
Austria (19)	118.92	−0.6	115.57	125.20	+0.4	2.09	119.68	114.11	124.65	124.16	92.84	87.59
Belgium (63)	125.73	−1.1	122.19	131.93	+0.0	4.16	127.08	121.16	131.94	137.10	125.73	123.84
Canada (124)	141.47	−0.2	137.49	123.19	+0.1	3.31	141.70	135.10	123.07	141.80	124.67	124.62
Denmark (38)	180.96	−0.4	175.87	194.01	+0.6	1.74	181.72	173.26	192.90	181.81	165.35	132.68
Finland (26)	139.59	−2.0	135.66	132.25	−0.1	1.58	142.39	135.76	132.38	159.16	125.81	137.79
France (126)	116.44	−1.6	113.16	125.30	−0.5	3.03	118.34	112.83	125.95	122.79	112.57	97.82
West Germany (100)	83.85	−1.0	81.49	88.27	+0.2	2.30	84.69	80.75	88.13	90.40	79.56	78.28
Hong Kong (49)	101.62	+8.0	98.76	101.63	+7.9	5.31	94.09	89.71	94.17	140.33	86.41	106.37
Ireland (17)	131.42	−1.9	127.72	140.44	−0.7	3.00	133.94	127.71	141.48	151.36	125.00	138.81
Italy (97)	78.60	−0.5	76.38	85.87	+0.2	2.57	78.97	75.29	85.69	86.88	74.97	71.03
Japan (455)	168.06	−2.7	163.33	158.08	−0.9	0.50	172.72	164.68	159.45	200.11	168.06	174.76
Malaysia (36)	178.20	+1.9	173.18	186.74	+2.5	2.57	174.86	166.72	182.27	185.03	143.35	142.59
Mexico (13)	233.31	+2.2	226.75	631.46	+2.1	0.80	228.24	217.62	618.26	233.31	153.32	170.75
Netherland (42)	114.52	−0.8	111.30	119.17	+0.2	4.32	115.48	110.11	118.94	122.22	110.63	107.37
New Zealand (24)	62.64	−2.5	60.88	59.66	−0.6	6.22	64.23	61.24	60.03	76.02	62.64	82.81
Norway (26)	170.39	+0.0	165.60	169.18	+1.0	1.57	170.39	162.45	167.49	198.39	139.92	126.28
Singapore (26)	158.06	+3.2	153.61	142.98	+3.8	1.94	153.19	146.06	137.80	161.98	124.57	119.58
South Africa (60)	136.60	−1.6	132.76	124.42	−1.8	4.31	138.86	132.39	126.73	144.86	115.35	130.78
Spain (43)	144.93	−0.4	140.85	143.17	+0.2	3.52	145.48	138.71	142.83	156.17	143.14	164.47
Sweden (35)	156.36	−0.8	151.96	157.51	+0.1	2.18	157.69	150.35	157.40	162.00	138.45	122.57
Switzerland (57)	74.67	−0.9	72.57	81.25	−0.1	2.51	75.38	71.87	81.32	79.76	67.81	81.25
United Kingdom (314)	135.12	−2.2	131.32	131.32	−0.3	4.43	138.12	131.69	131.69	153.33	134.53	138.81
USA (557)	133.13	−0.1	129.39	133.13	−0.1	3.37	133.28	127.07	133.28	133.36	112.13	110.49
Europe (1005)	113.27	−1.5	110.09	115.19	−0.1	3.58	115.00	109.64	115.32	121.70	112.65	110.26
Nordic (125)	151.44	−0.7	147.18	149.90	+0.3	1.90	152.56	145.46	149.42	155.61	137.96	118.24
Pacific Basin (676)	164.06	−2.5	159.45	154.34	−0.7	0.74	168.18	160.35	155.40	194.72	164.06	170.85
Euro – Pacific (1681)	143.82	−2.1	139.77	138.66	−0.5	1.65	146.97	140.13	139.36	164.22	143.82	146.62
North America (681)	133.54	−0.1	129.78	132.52	−0.1	3.36	133.69	127.46	132.65	133.73	112.79	111.25
Europe Ex. UK (691)	99.42	−1.0	96.62	105.20	+0.0	2.91	100.40	95.73	105.19	105.29	96.30	92.54
Pacific Ex. Japan (221)	116.11	+2.0	112.84	107.60	+2.6	4.84	113.89	108.58	104.90	137.65	111.93	123.84
World Ex. US (1878)	143.72	−2.1	139.68	138.20	−0.5	1.73	146.76	139.93	138.88	162.77	143.72	145.73
World Ex. UK (2121)	139.39	−1.3	135.47	136.99	−0.4	2.09	141.27	134.69	137.50	146.04	138.06	131.47
World Ex. So. Af. (2375)	139.01	−1.4	135.10	136.54	−0.4	2.28	140.99	134.42	137.02	146.65	138.82	132.11
World Ex. Japan (1980)	125.39	−0.5	121.86	125.45	+0.0	3.50	126.04	120.17	125.47	126.50	114.51	111.65
The World Index (2435)	138.99	−1.4	135.08	136.45	−0.4	2.29	140.97	134.41	136.95	146.51	138.63	132.11

SECTION III

FINANCIAL TIMES SURVEY

As Australia prepares for an election, the political and economic scene has rarely looked more in limbo. Now the fortunes of 'The Lucky Country' appear more vulnerable than ever to a world downturn, as Chris Sherwell reports here from Sydney.

Facing tough decisions



PLAYFUL "DUEL": Mr Bob Hawke, left, the Australian Prime Minister, and Mr Andrew Peacock, Opposition Leader, "duel" with their scissors in the corridors of Parliament House, Canberra, after the opening of the Press Gallery.

AUSTRALIA

CONTENTS

□ *Editorial production: Michael Wiltshire.*
□ *Graphics: Paul Saunders.*

SOMETIME in the next twelve months, Australian voters will go to the polls to choose between two party political groupings demanding the right to govern. They face a difficult decision: not only will the two sides be almost indistinguishable; the options they offer will also be inadequate.

Indeed, Australia's politics, its economy, its very identity, have rarely looked more in limbo. The country's 16m people, who seem to have everything – fabulous resource wealth, a near-pristine environment, high standards of living and democratic freedoms – may have to give some of that up, simply to retain the rest.

The trouble is, few realise it. And their political leaders, whether from the ruling Labor party or the opposition coalition of the Liberal and National parties, aren't spelling it out. Labor, after six years in government, believes it is doing enough to transform Australia's prospects. The opposition says more is needed, but is struggling to establish its credibility.

The man everyone is watching is Mr Bob Hawke, the Prime Minister. At 59, he is Australia's most successful Labor politician ever, winning three elections in a row since 1983.

Apart from his sustained popularity and his willingness to delegate, his success springs ultimately from Labor's evolving dominance of the conservative middle ground of Australian politics.

Both by design and through the pressure of outside events, Mr Hawke and his youthful Cabinet colleagues have stamped a new identity on the notion of Labor government.

On the economic front, his strategy of corporatist consensus has seen a flexible jobs and wages pact with the trade unions, deregulation of the financial markets and reforms in work practices to keep business sweet, and a breaking of the old protectionist psychology.

Externally, he has offered unswerving loyalty to the US defence alliance, and flatly rejected a move in the other direction by Australia's closest friend and neighbour, New Zealand. He has forged a new style of trade diplomacy, seen most visibly in the efforts of the Cairns Group partners in the Uruguay Round of trade talks. And he is now promoting the concept of a Pacific OECD.

As a result, Labor has improved the domestic investment and industrial relations climate, stimulated Australian businesses to look abroad, and generally "internationalised" an inward-looking economy. True, its record in creating new jobs owes much to six years of world expansion. The borrowing-and-consuming mentality has also become worrying, and Australian corporate morality is questionable. But the achievements are unmistakeable.

Mr Hawke, seeing an outflanked opposition thrown into disarray, is now looking for a fourth victory. Having defeated Mr Malcolm Fraser in 1983, he went on to beat Mr Andrew Peacock in 1984 and Mr John Howard in 1987. This time round, he looks like taking on Mr Peacock again, who was reinstated as Leader of the Opposition last month.

The difference this time, however, is that the government is confronting serious problems of its own, both over policy and internally. In a country where the economy dominates all other issues, Mr Hawke's success has depended crucially on Mr Paul Keating, the federal Treasurer. And over the past year the economy has not only slithered into fresh trouble, the two men have also had serious differences.

Back in 1983, Mr Keating's initial strategy of promoting jobs by stimulating growth after the 1981-82 recession, coupled with a persistent slide in commodity prices, provoked a balance of payments crisis which, by 1986, demanded a radical response.

In a famous turn of phrase, Mr Keating warned that the country was in danger of becoming a "banana republic". The Government, to its credit, used the crisis to set about repairing the damage.

Through some deft political management, it imposed public spending cuts, tightened monetary policy, secured further real wage restraint and looked for export gains and import replacement from an Australian dollar, sold down by the markets. The combination might have worked. But the 1987 stockmarket crash and its aftermath upset the calculations. In Australia as elsewhere, the crash provoked fears of recession, and governments loosened the reins. But the world economy was still expanding and commodity prices were surging.

Worse, what looked like a blessing for Australia was actually a curse. Domestic demand exploded, and the government took too long and did too little to respond.

The overall result was a burst of consumption and investment and an import binge. Australia is now heading for a record current account deficit of around A$17bn, or more than five per cent of gross domestic product, while its external debt has swollen to a net A$100bn.

At the same time, Labor is presiding over record 17 per cent mortgage rates and near-20 per cent prime rates, maintaining a tight fiscal policy but implementing long-promised tax cuts.

For Mr Keating, the deterioration, albeit born of growth and investment, is a major setback. In his August 1988 budget he had forecast a continuing decline in the current account deficit, and also a fall in inflation through an ingenious trade-off between tax cuts paid for out of the fiscal surplus and continued wage moderation. Neither has come to pass, and Australia is now more vulnerable to a world downturn than ever.

Equally worrying, Labor has made slow progress on another vital arm of its strategy, the all-important "micro-economic" reforms of key areas of the economy to promote greater efficiency. This was to be the cornerstone of Labor's third term. But the party has obstructed plans to privatise government entities, reform of the docks and coastal shipping has hit the shoals of entrenched interests, and deregulation in other areas like domestic aviation is only inching forward.

To be fair, the earlier financial deregulation has been a great success, while other moves – like tariff cuts and planned workplace reforms – offer great hope. But time is not on Australia's side: next on the agenda, whichever party wins government, must be comprehensive reform of the incentive structure of taxes and handouts, with the aim of improving Australia's lamentable savings rate. Yet for fear of a voter backlash, neither party is preparing the ground, especially for a much-needed consumption tax.

Another awkwardness for Labor is the succession. Mr Keating's personal aspiration to take over from Mr Hawke last year, and to lead Labor to victory, was stymied by Mr Hawke's determination to stay on, and provoked a rift between the two.

Mr Hawke now insists he will lead Labor into the next election, with the intention of staying a full term. If he does, the first problem he will face is holding on to Mr Keating.

Labor's worst problem is that it looks tired. With the more stylish Mr Peacock again leading the opposition, the electorate may be tempted to give the coalition a chance, if only for a change. In these circumstances, the outcome of the two sides' fight for power will depend less on policy and more on perception, regardless of their actual capacity to govern or their general competence.

Yet it is this that threatens to be Australia's greatest misfortune, since it is evident that more must be done to bring the economy back under control. On the one hand, Labor's unique strategy of pursuing structural adjustment slowly and without mass unemployment has run up against a brick wall. To do more on any front risks alienating its traditional supporters altogether.

On the other hand, it is far from clear whether the Liberals and Nationals can win majority support or even unite around a position which distinguishes them from the government by committing them to introduce rapidly the reforms Labor has stumbled over – deregulation of the labour market, privatisation and further tax reform.

The two sides must also confront other knotty issues, particularly Australia's overwhelming dependence on farm, quarry and hotel. Its need for imports demands that it export minerals and forestry products, yet environmentalists are successfully campaigning against both, turning all parties "green".

As Australians clearly wish to maintain their comfortable living standards, some difficult choices lie ahead. It is not that Australians are too busy enjoying their sea and sun, or their sport and the Great Outdoors, or their fresh food, great beer and fine wine, to bother with such things. All of that certainly makes a sense of crisis elusive, but it is not universal: plenty of Australians are genuinely battling to make ends meet.

Rather, it is Australians' wonderful but worrying sense of optimism – the well-known "She'll be Right" complacency about events, the unquenchable hope nurtured in all such remarkable lands of opportunity – which encourages them to think that, whatever happens, they will simply adapt, much as they have in the past.

They may be right. The long-term future of "the Lucky Country" seems assured by its size, natural wealth and geopolitical location. But between last year's bicentennial of its settlement by whites, and the centennial of its unity as a federation in 2001, lies the decade of the 1990s. Political leaders need to encourage Australians to display a greater sense of realism and perspective if it is not to be forced on them by the world outside. Otherwise, what identity they have may not be worth defending.

POLITICS

Rough and dangerous

POLITICS has always been a rough and dangerous business in Australia. It has been becoming more deadly – even suicidal – this year and once again the poor Australian voter faces a general election campaign, its fourth in seven years.

The election may be later this year; it may be next year, but no later – no matter. The campaign is already on, highlighting once again the main flaw in Australia's electoral system: the three-year term which gives a very short time in which to implement tough policies, especially within the embattled economy, between post-election euphoria and pre-election politicking.

The question of a longer term was put to a referendum last year and lost – not so much because the electorate enjoys going to the polls, but because *both major parties* incompetently squandered the opportunity for a bipartisan approach for improvement, opting instead for party-political bickering.

There is a lot of bickering in Australian politics. The states argue with the federal government about falling central allocations to the regional capitals' coffers. The factions within the governing Labour Party argue incessantly about the direction of policy.

The opposition Liberal Party has similar factional disagreements but also has to look out for pricks from the National party, its junior coalition partner. Australia is, in short, an exceptionally healthy and argumentative liberal democracy.

But a new element has entered the usual political calculations: the environmentalists or "greenies" have become a political force with which to be reckoned.

In May, they secured the balance of power in the state elections in Tasmania. The island state is peculiar in its electoral system and proportional representation, which does not obtain in a federal election, helped the greenies to victory.

Nevertheless, nobody regards Tasmania as an off-chance result. It seems clear that environmental issues will be a central theme in the next election. The major parties and their leaders are greening themselves as quickly as possible. Suddenly, nobody loves a tree more than an Australian politician anxious to be returned to parliament.

One reason for the steadily rising voter-interest in the environmentalists independents is the state of the two principal parties.

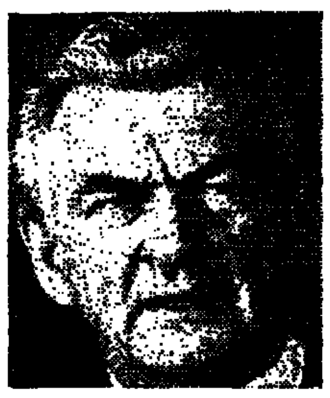
Opinion polls have repeatedly showed the electorate to be seriously disenchanted with Mr Bob Hawke's Labor Government (although not with Mr Hawke himself), but the Liberal opposition was making no headway at all under its clever but uncharismatic leader, Mr John Howard, and appeared unelectable.

Mr Howard, who is good in Parliament and bad on television which is the wrong way round in politics these days, was unable to capitalise on the government's economic difficulties.

With inflation rising, real wages falling and home loan interest rates at 16 per cent and rising the Liberals would normally have expected to be *riding high in the polls particularly* as the electors are tired of the Government and some Cabinet ministers are beginning to look and sound very tired of *office after six gruelling years* of extraordinarily hectic policy-making.

The Liberals' answer was to dump Mr Howard and replace him with Mr Andrew Peacock who was himself ousted as leader by Mr Howard. Both men have lost general elections to Mr Hawke – Mr Peacock in 1984 when his apologists said he campaigned brilliantly, but found Mr Hawke on an extraordinary roll, and Mr Howard in 1987 when his apologists said he would have scampered home but for the divisive distraction of Sir Joh Bjelke-Petersen, the mercurial former Premier of Queensland, who entered the campaign with a doomed Joh-for-Canberra campaign.

Mr Howard can claim to have won more votes than



Campaigning hard: Mr Bob Hawke (left); and the leader of the opposition Liberal Party, Mr Andrew Peacock.

Labor in 1987, but there are nor prizes for losing well. Mr Howard's Parliamentary colleagues dumped him pretty decisively – the vote was 44-27 and there must be something to the view that "If you cannot see a wave that big coming, you should not be at the helm."

For good measure, the National party dumped its leader, Mr Ian Sinclair, at the time time, replacing him with Mr Charles Blunt, a younger and more dynamic, *but* untested, politican.

Mr Peacock's supporters threw away the chance of a "honeymoon" period in the country by gloating publicly over their coup. Mr Peacock threw away the opportunity for internal party unity by refusing to offer Mr Howard either of the front bench portfolios which he wanted – foreign affairs or defence – and consigned him to the backbench by offering him education instead, to the fury of the Howard supporters.

This may have been a costly mistake as Mr Howard is one of the few opposition heavyweights *in parliament and*, with the government awash with talent, wasting him on the back benches is not an easily affordable luxury.

But Mr Peacock's real problem is to find some political clothes and dress himself up quickly. The great success of the Labor government under *the leadership of its right-wing* autocrats, Mr Hawke and Mr Paul Keating, the Treasurer, has been to capture Australia's middle ground leaving its own Left-wing and the opposition high and dry.

There were a few differences between Mr Howard and Mr Hawke – Mr Howard would have speeded up the privatisation tortoise, introduced a more restrictive immigration policy and made more noise *about labour market reform*. But spotting the policy differences between Mr Hawke and Mr Peacock "is like looking for the difference between a rabbit and a *bunny*," *says* one observer.

Mr Peacock has already opted for a bipartisan immigration policy and is less exercised about the speed of micro-economic reforms than Mr Howard. His supporters insist that he is a little drier than his reputation and that, as the *election campaign gets going*, he will harden up on issues, particularly the state of the economy.

The Liberals believe that the combination of the Government's tiredness and lack of popularity, together with the poor state of the economy means they are sure to win the election unless they lose it themselves – "only the Liberals can lose the Liberals the next election," said Mr Peacock. This confidence may be overlooking a couple of important factors in Labor's advantage. One is that although the *economy* is undoubtedly going to remain in poor shape throughout the run-up to the election, whenever it is, the government controls one or two levers.

As staying in power is ultimately the only goal of any government, these levers can be pulled, if necessary, to electoral rather than economic advantage.

Mr Keating could therefore be expected to raise interest rates higher than economically necessary to enable him to ease them off nearer the election. He could then argue that while things have been tough, they are getting better and the years of pain should not be thrown away.

This would be an interesting test of the theory that the Australian electorate is exceptionally *sophisticated, particulary* on economic issues. Another important factor is Mr Hawke's personal popularity, which seems to count for a lot. Mr Peacock *shows* up well but Mr Hawke is starting to acquire the aura of a statesman around his familiar identification with "ordinary" Australians.

To prevent Mr Peacock from stealing Mr Hawke's popular appeal Labor will concentrate from here on in on demolishing the opposition leader's credibility – "Attack Peacock" will be the strategy.

The Liberals have a couple of advantages, too – "If there is so little policy *difference*, why not throw out the tired Government while the economy is in a mess and let the other side try to make a go of things?" the argument runs.

Also, would Labor voters be electing a Hawke or a Keating government? Mr Keating is heir apparent and very anxious to get his feet into Mr Hawke's boots. Voters might be a good deal less enthusiastic about voting for the acerbic Treasurer as head of government, which may be why Mr Hawke is now stressing his aim to win re-election "with the intention of serving the full term" – even if he does *not* mean it.

There is a familiar, slightly ho-hum air to all of this which is why the independent environmentalists must be reckoned *a serious alternative for* disillusioned Labor voters who cannot bring themselves to vote Liberal and despairing Liberal – and National voters who would never vote Labor.

Voting is compulsory, so staying home is not an option. Both parties may have to become green indeed, and in deed, to keep their natural constituencies on their side.

Robin Pauley, Asia Editor

Robin Pauley reviews new priorities in foreign policy

Anchor of the south Pacific

AUSTRALIA is "on the map" – by carefully re-assessing and re-ordering its foreign policy priorities, Senator Gareth Evans, the new Foreign Minister, has put his country at the forefront of discussions about the future of world trade, and is establishing Australia as the anchor state of the South Pacific.

In a grandiose statement about the significance of trade in foreign relations, the foreign and trade ministries have been merged, with Mr Michael Duffy, Minister of Foreign Trade Negotiations, becoming effectively Deputy Foreign Minister.

But less dramatic statements are equally important: in contrast to his predecessors, Senator Evans did not make Europe or the US the focus of his first foreign tour, but went instead to the south Pacific and south-east Asia. It was a gesture that was noticed.

Australia's priorities on trade are essentially to try to secure a free and liberal international trading environment which allows it free, or at least fair, access to markets for its vast range of commodities. This has not always been its attitude; although the agricultural sector has been freer than most, Australia, until Mr Bob Hawke's Labor government took office in 1983, had erected a vast array of trade tariffs and barriers around its industries.

Now, Australia wants a flat playing-field eventually in all sectors, but most urgently in agriculture, where it is a highly competitive low-cost producer – "we have, as one of our very highest foreign-policy objectives, a successful outcome of the Uruguay Round of multi-lateral trade negotiations in all fields, including new ones like services and intellectual property, but particularly in agriculture," Senator Evans told the Australian Institute of International Affairs, recently.

Agriculture has been talked through the Cairns Group of 14 agricultural trading nations, chaired by Australia, which has been a lot more influential and successful in identifying short- and long-term solutions than cynics believed when it was set up.

Australia is now focusing on other foreign trade problems, notably coal, where huge subsidies in some countries – the EC countries (especially West Germany and Britain), Canada and Japan – are distorting the world market.

In 1986, EC coal received about US$12bn in subsidies, the equivalent of about $25,000 per employee. Annual subsidies paid to the coal industry in West Germany rose by more than 70 per cent in the four years to 1988, and Japanese coal subsidies nearly doubled over the same period. The result is that the price of coal in Europe and Japan is about two-and-a-half times the world price.

Australia and the US together account for about 51 per cent of world hard coal trade, yet in recent years West German subsidies have grown by more than the export earnings of either the US or Australia.

Trade meetings, such as the Cairns group, have played a wider role than trying to agree long-term mechanisms to liberalise agricultural trade. The regular meetings have, for example, helped Australia and Indonesia to improve their traditionally difficult relations.

The Indonesians have regarded Australia equally distrustfully, and have never seemed quite to understand that, in a liberal democracy, hostile newspaper articles about a foreign government can neither be banned nor taken to represent government policy. The uneasy relationship is, for now, easier, and both sides seem determined to work at being friendlier.

Mr Hawke has launched a new initiative to give some cohesion to economic developments in the Pacific region, and to underline his increasing belief that, while Europe remains vital to Australia, the key to the country's future lies within the region. His idea has been dubbed a Pacific-OECD and, while not intended to mimic the vast bureaucracy that the Paris-based organisation has spawned, it is a plan for the co-ordinated collection of data, from which long-range strategies based on shared assessments could be based.

"It would not be a trading bloc," chorus Mr Hawke and his ministers. It follows a range of other similar ideas, notably from the Japanese, which have so far not borne fruit.

The Hawke plan has drawn a favourable response. The core group of nations would be the six ASEAN states, plus Australia, New Zealand, Japan and South Korea. The US and Canada would also be included, and so possibly would the "three Chinas" – Hong Kong, Taiwan and China.

The chances are high for a first ministerial meeting towards the end of the year, probably in Canberra just before the Pacific Economic Co-operation Conference (PECC) meeting due to be held in New Zealand in November.

In the south Pacific – the most important geo-political area, from Australia's strategic point of view – Australia has previously been caught off guard several times. The Foreign Ministry had no feel that the *military coup in Fiji* was imminent or likely in 1987, and when it came there was confusion over the desirable and feasible responses; Soviet and *Libyan intentions in the* region were over-analysed and misread; relations with the Solomon Islands deteriorated, as did those with New Caledonia and, by association, France.

The new emphasis given by Senator Evans to the region has started to redress the balance, and most of the island states appear to welcome the new approach – not to mention the economic and defence aid, which the largest and richest state in the region can provide when it thinks and behaves as a part of that region, rather than as some external power.

Much the two most difficult foreign-policy difficulties are closer to home: Papua New Guinea and New Zealand.

In Papua New Guinea, the persistent habit of changing government makes it difficult to develop close personal ties with the leaders of the former colony.

The problems with New Zealand stem from its withdrawal from the tri-partite Anzus pact, following the refusal by Mr David Lange's Labour government to allow nuclear-armed or nuclear-powered warships to visit New Zealand's ports.

MICRO-ECONOMIC ISSUES

So much more still to do

Robin Pauley reviews the Government's record on reforms

THE HAWKE Government made micro-economic reform its third term centrepiece, and its supporters reel off a list of measures completed or under way. However, the scale of the reforms required to make Australia efficient and competitive is *underscored by the fact that* it remains easy to argue that the surface has still barely been scratched.

This is partly because the Government is constrained over the speed at which it can move – although not nearly as constrained as it claims – and partly because there is so much to tackle. There has been virtually no micro-economic reform in Australia for 30 years.

In its early years, Mr Hawke's government concentrated on macro-economic changes. Mr Paul Keating, the Treasurer, is fond of saying that "you have to get the big picture right first". (New Zealand did it the other way round, and its current economic difficulties are neither better nor worse than Australia's: they are just different.)

However, in the four years to 1987, the Canberra government did introduce some micro-reforms, the two most important being the liberalisation of the financial markets and the reform of the personal taxation system.

During the third term, which began in 1987, the Government has decided to tackle a range of subjects, including further improvements to the taxation systems and notoriously uncompetitive sectors such as transport and government enterprises.

The most eagerly awaited transport reform takes effect next year when the "two-airline" policy ends, after which anybody conforming to safety and licence requirements will be able to set up and run an airline in Australia.

Currently, there are only two principal domestic carriers, Australian and Ansett, with the result that fares are among the highest in the world and the services are not structured for passenger convenience. Often both carriers leave within 10 minutes of each other for the same destination, after which neither carrier leaves for hours. It is, unsurprisingly, a heated topic.

But with one solution comes another problem. More carriers next year will mean more passengers flying at lower fares on more flights making more take-offs and landings. Sydney airport, for example, is already a traveller's nightmare, with inadequate runway capacity and air-traffic controllers taking *intermittent disruptive* action to protest about staff and equipment shortages.

Deregulation will make the lottery of departures and arrivals at Sydney yet worse, as will the hoped-for increase in the number of foreign tourists attracted to Australia.

In a related reform, freight and passenger air charter has been *freed, removing the right* of Qantas, the state-owned international carrier, to first right of refusal.

The vexed issues of coastal shipping and the ports and waterfront are also to be tackled, not without some nervous-

The eagerly awaited transport reform takes effect next year when the policy of two airlines ends

ness. There are only around 4,000 stevedores in Australia, but *they have traditionally* been organised into an extremely powerful union, which has used its muscle to preserve uncompetitive work practices.

Similarly, unions (often with the collusion of owners) have erected a system of costs, under the protection of the cabotage system, which have forced all but the captive heavy bulk users away from the coastal shippers; it is generally cheaper to ship cargo to another continent than to another port within Australia.

The Business Council of Australia has described this history as "a Guinness book of records of outrageous workplace practices and a cost burden for our internationally competitive industries".

However, the Government is planning to move as gently as possible to try to retain the goodwill and co-operation of the unions. The monopoly afforded by cabotage, which limits coast shipping to vessels under the Australian flag, *seems set to continue*.

Ministers believe that to end cabotage overnight would close the waterfronts and all coastal shipping through strikes. The only way to abolish cabotage quickly, they believe, would be to put in the army and navy to run the ports and shipping for as long as it took – a move which a Labor government would be unwilling to contemplate.

A substantial success story has been the reduction of Australia's exceptionally high tar*iffs, which have been lowered* by an average of around 30 per cent.

By 1992, all industrial sectors except cars and textiles, footwear and clothing, will have tariffs of either 15 per cent (for all those currently over 15 per cent) or 10 per cent (for those currently between 10 and 15 per cent).

The two exceptions have been notoriously protected sectors in Australia, as in many other parts of the world. It is open to debate whether a country of 16m people should be making cars at all; it is beyond debate that five multi-model makers is too many. Some rationalisation is under way; import quotas have been removed and, by 1992, 57 per cent tariffs will be down to "only" 35 per cent.

Progress is painfully slow in spite of the efforts of Senator John Button, Industry Minister and one of the most forceful advocates of change.

Likewise, textiles, footwear and clothing remain highly protected. The best hope is no more than that quotas will have been removed by the early 1990s.

On taxation, the income tax base has been widened and the rates lowered, although the top rate of tax remains 49 per cent (shortly to fall to 47 per cent) and is payable at not much above average earnings. Company tax rates have been reduced from 49 per cent to 39 per cent, and a large number of distorting corporation tax incentives have been abolished.

However, company tax is not adjusted for inflation, with consequent distortions to investment; and the indirect *tax system* operates against the international competitiveness of Australian business by taxing inputs. This could be alleviated by switching taxation to *consumption* rather than inputs, a move which would also enable a further substantial shift from direct to indirect taxation.

However, *having been* denied the chance of introducing a consumption tax at a period of low inflation in 1985, Mr Keating now seems unlikely to have another try until the next period of low inflation which, judging by the present state of the economy, could be some time away.

The Government argues that critics of the micro-economic reforms introduced so far fail to understand how much time it takes to negotiate changes with the unions, implement *the changes* and get them through parliament – especially when the issues are all handled by one minister, Mr Ralph Willis, Minister for Transport and *Communications* (dubbed by one leading Australian economics commentator "minister for wimpishness", because of his failure to promote *real* competition in coastal shipping).

For example, all 40 regulations introduced in 1901 covering the financial operation of government *enterprises have* been abolished. The change was agreed in May 1988, but took a further year to get through the administrative and *parliamentary obstacle* course.

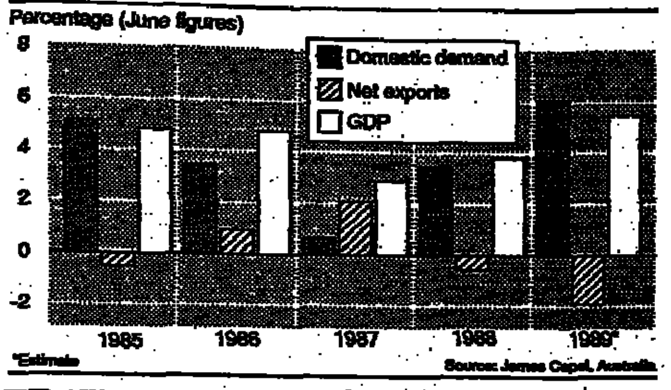
It can be argued that the Government could have introduced more micro-economic reform sooner, and could have been more radical, particularly in improving labour market flexibility. But it is difficult to argue that it is doing nothing substantive, or that it has not made micro-economic reform an important element of its economic policy.

Overview of the economy and key indicators, Page 3

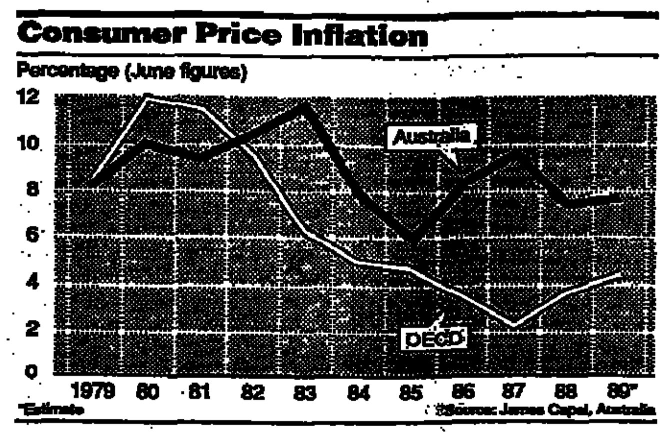
Getting the economy off the rocks this time looks harder, says **Robin Pauley**

In search of calmer waters after a stormy passage

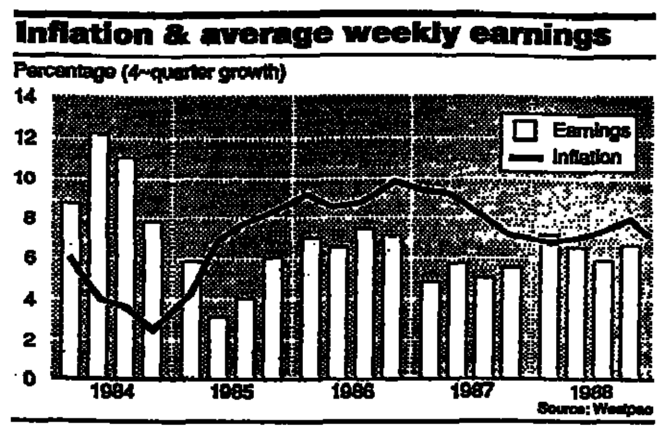
Contributions to real GDP



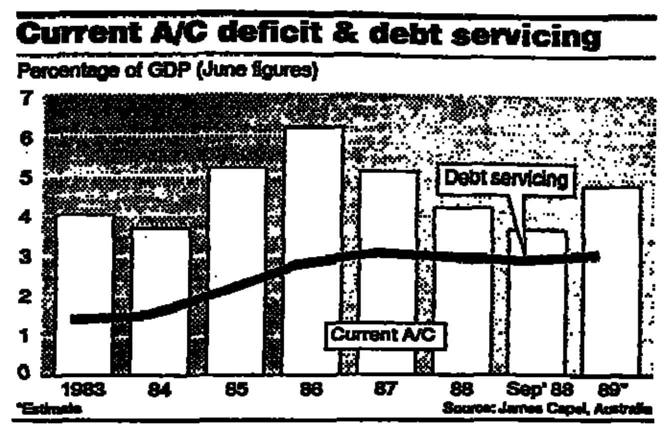
Consumer Price Inflation



Inflation & average weekly earnings



Current A/C deficit & debt servicing



THE AUSTRALIAN economy is mired deep in crisis and the outlook is awful.

Australia has been in this position before – too regularly for comfort. But whenever in the past disaster has appeared imminent, some external factor, usually a turnaround in the terms of trade, caused by the upswing in the commodity price cycle, has steered the economy – if not towards a safe haven – then at least towards calmer waters.

Getting off the rocks and back to calm waters looks harder this time. It is not just that the country has an alarming overhang of foreign debt and a ballooning deficit on the current account – the two factors most discussed by what must, by any standards, be one of the most economically liberate electorates in the world.

Inflation remains endemic and savings levels chronically low

There are two problems in Australia that are potentially much more serious and which seem to be barely discussed at all. Both nevertheless loom large in the worst nightmares of Mr Paul Keating, the Treasurer: inflation remains endemic, and savings levels chronically low. A serious fiscal imbalance has been created by an array of savings disincentives and too many incentives towards unproductive expenditure.

Mr Keating's problem is not only that the economy is fast on the reef, but that he finds himself between a rock and a hard place in terms of corrective action. The ultimate goal of politicians will always be to retain power, and unpopular economic measures would put this in jeopardy for the ruling Labor Party, which under the leadership of Mr Bob Hawke is facing a general election within the next year or so.

That is not long to cool down an overheated economy and make the consequences look palatable to an electorate which is anyway showing signs of impatience with the Government. Prime interest rates are at 19.75 per cent with house mortgage lending rates at 16 per cent. Neither has necessarily peaked. Inflation is up to just under 8 per cent and rising. Money supply growth has run away to an annual rate of 28 per cent.

This is all the result of problems which started towards the end of 1987. Because of international uncertainty and recessionary fears after the 1987 stock market crash, strong corrections were made in Australia only in the spring of 1988 when too little tightening was done too late, particularly on the monetary front.

The domestic economy had, by then, built up a tremendous head of steam, with import volumes rising strongly and exports weakening. It has taken a year to start the slow down and the economy is not yet back on track.

Eighteen months has been lost from the attempts by Mr Hawke and Mr Keating to restructure the economy with substantial macro and micro reforms. The key objective was to reduce the inefficient and subsidised nature of the economy and to diversify a liberalised economy away from extreme dependence on fluctuations in the commodity cycle.

But in addition to other problems, the commodity cycle again wreaked havoc in 1988. It recovered too quickly. The terms of trade soared again, injecting billions of unprogrammed extra dollars into the economy and, crucially, once more the fact that something good had turned up tended to make people believe that perhaps God was after all an Australian.

Industrial disputes rose again, consumer spending took off - especially for expensive imported luxury goods, BMW cars being the latest status symbol of wealth which is being spent but not earned. Credit soared together with expectations.

The figures say it all: in the first half of 1989 gross national expenditure grew by 8.6 per cent, outpacing GDP growth of just under 4 per cent. Net imports supplied 5.1 percentage points of the growth in gross national expenditure.

Business caught up with a vengeance, after having been extraordinarily slow in responding to the improved conditions for investment created by the Government between coming to office in 1983 and 1987.

In the six months to December, 1987, gross fixed capital expenditure in the private sector increased by 16 per cent followed by 26 per cent in the next half and 9 per cent in the second half of 1988. Much of this investment was replacement of infrastructure and machinery and a lot more was in non-manufacturing sectors such as office blocks. It was all necessary, but was too much at the wrong time, contributing to the overheating.

Now the brakes are on with a very tight monetary and fiscal stance. The Government has acted against demand, throttling off imports and investment. The current account deficit should, under all the constraints now imposed, be reined back - but it is a slow process.

The full year deficit for 1988-89 is likely to be around A$16bn, far above the Budget forecast and moving towards the unsustainable level of 6 per cent of GDP. It will be a further full year before the deficit looks to be back at a sustainable level.

Paul Keating, the Treasurer: two problems loom large in his worst nightmares. Left: Sydney, Australia's financial centre.

KEY FACTS AND INDICATORS

- Area: 7,682,300 sq. km.
- Population: 16.25m
- Birth rate, 1986: 15 per 1,000 of the population
- Labour force, % of population: 66%*
- Urban population, % of total: 86%*
- Average of all industrial market economies, 75%*
- Life expectancy at birth 1986: 78 years.
- Real GDP growth: 1988, 4.2%; 1987, 4.3%; 1978-88, annual average, 3.5%
- GDP per capita, 1987: US$ 11,919.
- Purchasing-power parities: 12,612; Japan, 13,181; UK, 12,340.
- Inflation: 1988, 7.3%; 1987, 8.4%; 1978-88 annual average, 8.6%
- Merchandise exports: 1988, US$32,770m; 1987, US$26,273m.
- Merchandise imports: 1988, US$33,876m; 1987, US$26,749m.
- Current account balance: 1988, –US$10,946m; 1987, –US$8,772m.
- Reserves, excl. gold: April, 1989, US$13,000m.
- Main destination of exports: Japan, 26%**
- Main source of imports: US, 21%**
- Main exports, 1988, % of total: wool, 14.0%; wheat 3.4%; iron ore, 4.2%; beef, 4.5%; coal, 11.0%
- External debt: end-March, 1989: US$84.5bn.
- Gold output, 1988: 152 tonnes; 1980, 17 tonnes
- Share of world output: 1988, 8.5%; 1980 1.8%

***1987/88; *1985 figures.*
Source: Sue Cockerill, FT.

Part of this problem is compounded by the explosion of debt. Australia is the world's third-largest debtor after Brazil and Mexico, with net debt - after deducting foreign exchange and gold reserves - of A$95bn. The country's gross debt has doubled in three years to US$122bn – nearly a third of GDP.

But it is unrealistic to compare the threat of the debt mountain to those in Mexico and Brazil. More than half of Australia's debt is in the private sector, more than secured by overseas assets, the rest being in the public enterprises such as Telecom and Qantas and the state governments. The federal government's debt burden is modest, even conservative, accounting for no more than about 17 per cent of the total.

This means that debt is no exceptional cause for concern. But the gross figures do have serious implications: two-thirds of export earnings go to service the foreign debt and these interest payments mean the current account will be beginning each month with an immoveable A$1bn in red ink for the foreseeable future.

But, taking the view that the debt and current account deficit are manageable leaves inflation and savings as the main threats. Australia, unlike many of its trading partners, has never broken the neck of inflation.

The average rate of increase over the last 15 years is 10 per cent, the average rate of increase over the last seven years is 8 per cent (more than double the average for the major OECD trading partners).

Mr Keating's policies almost strangled the problem; in 1984-85 inflation was down around 5 per cent and the underlying trend and expectations were downward. That was the great missed moment to switch the emphasis of taxation from direct to indirect when the Tax Conference rejected a consumption tax.

There is no doubt that whichever party is in power, a consumption tax will eventually be introduced, but it will have to await the next low-and-downward inflation line before it is politically possible.

It looks like being a fairly long wait. A new inflationary pressure arises with the tight labour market associated with the Hawke Government's remarkable success in employment creation – 1.4m jobs since coming to office.

As with so many of their other successes, the Government seems to get the economic downside just at the wrong moment from what are otherwise impressive policy successes.

The brakes are on with a tight monetary and fiscal stance

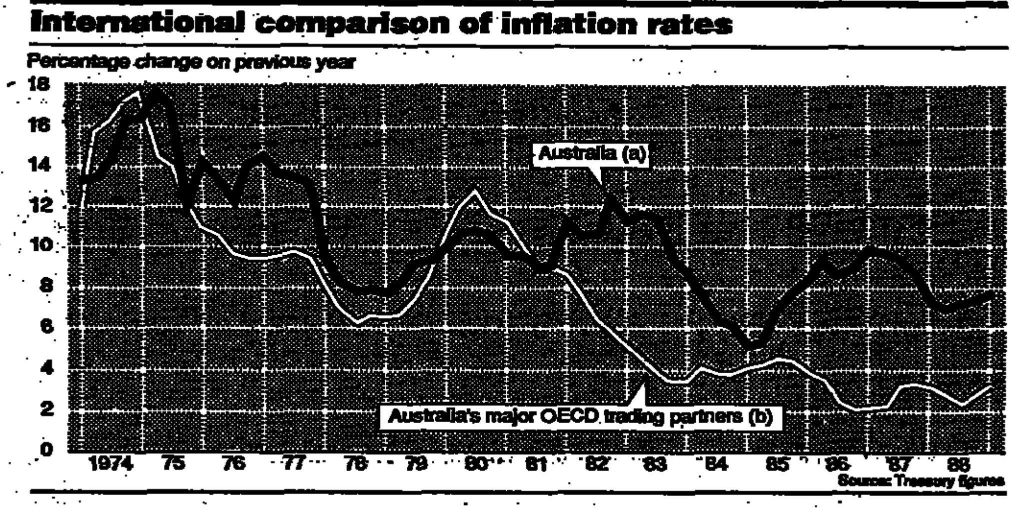
Where the Government is most open to criticism, according to many commentators, is on the savings front. There are various ways to boost and redirect savings; the least politically acceptable redirection would involve removing the distorting tax breaks from home ownership to produce an incentive for individual investment in productive enterprises rather than in a non-productive appreciating personal asset.

Equally important, the tax treatment on interest payments and receipts needs attention to make them inflation-neutral; interest deductions are under-taxed and interest income is over-taxed. If people saved more the corporate sector could borrow more from the domestic sector. Saving is such a poor option for individuals that household savings have fallen from 12 per cent of household income in 1975-76 to 8 per cent last year and are only marginally higher now.

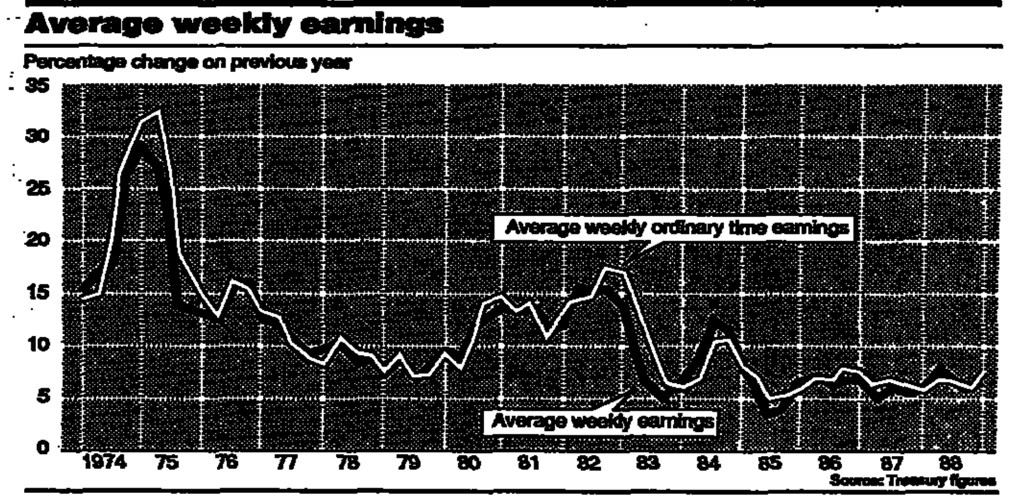
An announcement of impending changes might be enough to encourage companies immediately to keep their gearing low, curbing propensity to further debt and helping to slow the economy. Highly-

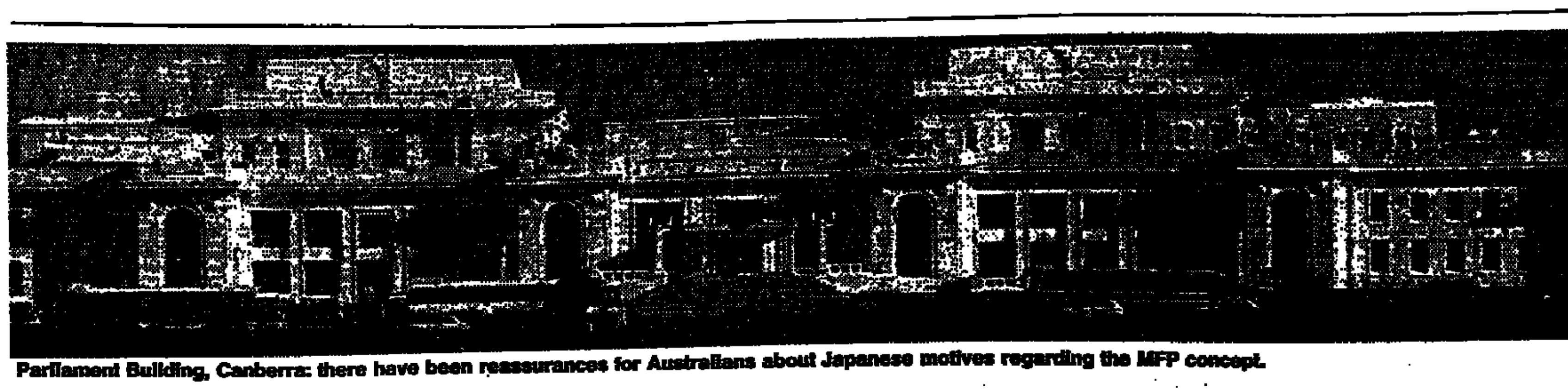
Continued on Page 4

International comparison of inflation rates



Average weekly earnings





Parliament Building, Canberra: there have been reassurances for Australians about Japanese motives regarding the MFP concept.

Debate on Australian-Japanese collaboration

More than a warm inner glow

As mouthfuls go, "Multi-Function Polis" is a bit much, even for intellectual gourmets to stomach. But no other phrase has yet been cooked up to describe an unusual collaboration which is now under way between Australia and Japan and is certain to influence the future of both countries.

Known as MFP by its most ardent proponents, the multi-function polis is a matter of considerable debate, and not a little sensitivity – even if it is barely understood and known about among the ordinary public. A recent survey by the Roy Morgan Research Centre discovered that less than one in ten people had heard of it.

The pollster's question, however, at least captured the essence of what the MFP is: "An idea for a co-operative international development in Australia to promote new industries, service and lifestyles to lead us into the 21st century."

Its origins go back to January, 1987. At a ministerial meeting between Japan and Australia which looked like exposing the limitations of the two sides' relationship, the Japanese Minister for International Trade and Industry put up a proposal for a multi-function polis.

The argument was simple. Japan wanted to use its massive investment resources to create new regional linkages which would enhance its position as a "world citizen" in the next century. It sought exchanges in the fields of education, research, technology, health care and culture.

As Japan and Australia were the most advanced nations on the edge of a region with the greatest growth potential in the world, why not build – in Australia – a "city of the future," where all these activities could be conducted by semi-residential international participants through modern convention, leisure and resort facilities?

Australia reacted positively. The MFP concept offered the possibility of internationalising its research and high-tech manufacturing effort and promoting its economic restructuring away from reliance on commodities and towards such service activities as education, financial services and tourism.

There is clearly some way to go before the 'Multi-Function Polis' vision becomes a reality

Before anything went ahead, Canberra spelt out a few principles to reassure Australians about Japanese motives. It said the MFP had to emphasise the pursuit of scientific and technological excellence, create "leading edge" infrastructure, be truly international, and not be an enclave. It would not receive special subsidies, and had to win private sector support.

With that, the two sides set up a 14-man joint steering committee of business, government and other leaders, and a joint secretariat with consultants at its disposal. Each country also established its own domestic committee, also serviced by their own secretariats. Late last year, work began.

The MFP's evolution has since followed an unexpected course. Those involved find themselves unable to answer the seemingly obvious questions "What is it?" or "Where will it be?"

Instead, they are pursuing two related courses – one, a general feasibility study, which has begun trying to elaborate the MFP concept, the second a catalogue of business opportunities which Australia might exploit over the next 30 years – some of which, indeed, need an MFP.

It is the second of these which has sparked excitement, because it has provoked an unprecedented discussion about Australia's future. Through an array of experts brought together in a series of "think tanks," the MFP has become a means of identifying changes in the way wealth will be created, with the possibility that the concept might be harnessed to promote these changes and enhance international co-operation.

There are 18 "think tanks," covering such key sectors as agriculture, mineral processing, 21st century manufacturing, financial services, transport, defence and aerospace, telecommunications, tourism, media and entertainment, health care, education, energy and the environment.

Each comprises some 12-14 leading analysts drawn from each sector, and they are supposed to take a 30-year view of the industry's development, isolate new long-term business opportunities for Australia in co-operation with other countries, and determine whether the MFP can help realise their vision.

The concept has kept plenty of people occupied — and some of them are genuinely excited

So far, most of the suggestions involve the establishment of centres of excellence or of "test-beds" for new products. Of the specific proposals which will emerge, most will probably rejected. The difficulty will be marrying those that look worthwhile with an MFP whose shape they are supposed ultimately to determine.

Regarding the feasibility study, this is being done by a consortium headed by Arthur Andersen, and it is too early to know what this will come up with. So far, it has produced a "pilot concept" which links the three basic strands of technology, environment and culture.

Consideration of specific investment opportunities in these areas will presumably help clarify what form the MFP should take, and eventually its location.

Unsurprisingly, conversations about MFP among its participants easily take on an intricate, not to say incomprehensible, form. When the Japanese first mooted the idea, they talked of a "fifth sphere" – of a city which was not residential or industrial, nor convention or resort-oriented, but which had all these elements without being classifiable as any of them.

The Australian reaction, perhaps biased, went as follows: "If fifth sphere means a place that people work in, live in, recreate in, and a place so attractive that others will travel there for vacations, then all Australian cities are fifth sphere, as is Australia as a whole.

"We do not necessarily need to create a separate place. A network of MFP fifth sphere living could occur at every major Australian metropolis."

Plainly, there is some way to go before the MFP ever becomes reality. But it already has plenty of people occupied, and some of them genuinely excited. As Mr Will Bailey, the head of ANZ Bank and chairman of the Australian committee, said recently: "I have become tremendously uplifted by the possibilities of it all.

"However, I am no airy-fairy romantic, and nor are my colleagues. Even if it only half-works, the polis must be an economic force. It must give Australians something more than a warm inner glow – and I believe it will."

Chris Sherwell

Because there is no real threat to the country, one has to be imagined

Defence strategy is based on the sea

AUSTRALIANS take defence very seriously; it is a sensitive electoral subject and therefore an important party political issue. The problem is that there is no real threat to Australia so, increasingly, one has to be imagined.

As the global super powers move into a more peaceful and accommodating phase – at least externally – it gets harder for Australia even to imagine an external threat. India is the latest improbable country in the list of "possibles". Officials agree privately that the build-up of Indian naval forces probably has more to do with the US and India's hegemonistic attitudes to South Asia than with Australia, even though the latter does have, thousands of miles from India, an Indian Ocean coast.

Australia, an island which is also a continent the size of the US but with a population the equal of New York State's, probably cannot be conquered in anything short of a nuclear war which is just as well since it also probably cannot be defended.

Over the years Australia has been reluctant to devise its defence policies in line with these realities – perhaps understandably, given the historic and heroic role its forces have played in conflicts far from home. This has reinforced the concentration on global defence; but realistically, international campaigns are now history and, whereas Australia's undoubted contributions were largely from land forces, future defence strategy needs to revolve around naval capability with some air support but a very limited role for land forces.

However, defence is not just about defence. It is about history, vested interests, jobs, contracts, exports and politics, all of which have been intruding on plans to rationalise defence policy to a self-reliant largely national role.

The seminal review of defence strategy in 1986 by Dr Paul Dibb, a defence consultant, concluded that Australia should focus its future defence commitments on its area of vital military interest – Australia and immediate sea surrounds, Indonesia, Papua New Guinea, New Zealand and the neighbouring south-west Pacific islands.

Support for countries in the next defence ring, the sphere of primary strategic interest – South East Asia and the further flung islands of the South Pacific – would be principally economic and political.

In 1987 a white paper largely accepted the Dibb analysis and concentrated on "defence in depth" although the Government took a stronger line on commitments to the defence alliance with the United States. However, since the white paper was published Mr Kim Beazley, the high-profile Defence Minister, appears to have moved further back towards the old policies of "forward defence" under which Australian forces could and would be deployed regionally together with forces from like-minded neighbours.

One of the principal reasons seems to be that as the super powers reduce tensions, making Europe in particular more peaceful, the benefits may not be the same in the Pacific where the potential for instability and intervention may actually have increased. In December Mr Beazley noted that China, India, Japan and the Soviet Union were all major powers on the region's periphery with "the potential to intervene in regional affairs should they consider their interests threatened".

There is no shortage of defence experts inside and outside Australia who will argue the country is committing itself to a wider role than is either necessary, desirable or sustainable. One reason for a heightened role concerns the increasingly lucrative market in arms products. The Government has relaxed its tight controls over arms exports with the intention of cornering a larger share of the market in the Asia-Pacific region.

India is the latest improbable country in the list of 'possible' external threats to Australia

An important development will be its admission to the Paris-based Co-ordinating Committee on Multilateral Export Controls (COCOM) which will make it easier for Australian defence industry manufacturers dependent on US components to compete in the intensely competitive defence industry markets. Another reason is political. Australians perceive a usually undefined threat and any political party seen as taking anything other than a robust position on defence would immediately come under sustained and damaging attack from its political opponents seeking to make electoral capital.

Tied up with this is the traditional role of employment in defence industries. While Australia is buying 75 F-A18 fighters made in the US plus air-to-air refuelling systems (which Dibb found not to be immediately necessary) it cannot adopt the same off-the-shelf approach to ships and submarines without denying work to its traditional dockyards and components manufacturers.

After a fierce contest last year six Swedish-designed submarines were ordered, with a possibility of two more. They are being built and fitted out in Adelaide by a consortium led by Kockums of Sweden for delivery between 1993 and 1998. Submarines make strategic sense to a country with extended shipping and trading lines; they are about the only effective deterrent to any power minded to interfere directly or indirectly with such links. Whether, employment issues notwithstanding, the submarines need to be new is another matter.

The same question applies with greater force to the contest over the project to build eight light frigates for Australia costing A$3.5bn. A further four for New Zealand, if it can be persuaded to participate, takes the total to A$5bn, Australia's biggest defence project. The argument for frigates follows on from Australia's decision not to have aircraft-carriers. The frigates can carry a Sea Hawk helicopter for anti-submarine attack and are regarded as complementary to the submarine force in protecting the trade routes.

Light destroyers are remarkably easy to destroy and their vulnerability to missile attack was underlined in the 1982 Falklands War. However, if frigates are needed for a country as unlikely to have to use them for more than exercises, do they have to be new? The answer is an unequivocal yes in the dockyards of Victoria and New South Wales which are competing for the right to build whichever of the Dutch and German designs is finally chosen. One consortium estimates the contract could create 5,000 jobs over 15 years in the dockyard and at component sites across the country; the other estimates 9,960 jobs. Both guarantee the level of local industry involvement would be above 70 per cent.

The most important of the frigate issues is whether New Zealand joins the venture and buys or even leases up to two. This is an important test not only of New Zealand's willingness to play any co-operative defence role but also of whether regional states can formulate regional defence strategies together. It is in short about commitment and if New Zealand's commitment is lacking, as may happen, then Australia has a serious foreign policy-defence policy problem which will require more attention than the likely threat posed to the country by India.

Robin Pauley

Stormy economic passage

Continued from Page 3

geared corporations would squeal but savers and investors would gain, all of which has the benefit of being politically popular. The Government has shown no inclination to move on the savings side of the equation so far.

The Hawke Government has received widespread praise for the range of its economic strategy. Real wages have fallen for six successive years under consensus arrangements with the unions, markets have been liberalised, protective barriers dismantled. Employment is rising and fiscal and monetary policy is tight. The currency on a trade-weighted basis is stable. Yet the economy is in deep trouble except when the commodity price upswings make it overheat and encourages Australians to believe that all is well. The truth is the reverse.

Each setback looks worse and more intractable than the last and with the world economy and commodity prices again coming off, Australia could be facing an exceptionally harsh time. It may be that the Australian way of consensus and step-by-step cannot produce a fast enough restructuring.

If that is the case – or if foreign investors deem it to be so – a harsh approach, such as that used previously by Britain and New Zealand, may be inevitable. A recession is beckoning from both the calmer waters and the rocks.

□ Micro-economic issues: so much still to do, see Page 11.

Agricultural exports are steadily improving, says **Chris Sherwell**

Farm output rises strongly

THREE or four years ago, the sound of fury emanating from Australian farmers was almost deafening. Export prices were weak, input costs were high, the Australian dollar was falling, their debt burden was growing and US and European Community protectionism was intensifying.

Not any longer. The elements of this decline have since stabilised or gone into reverse, and the sounds are of contentment rather than complaint. Scarcely a word is heard of farmers selling-up to meet their creditors or leaving the land in protest at their ignominious fate.

In the long-run, of course, the trauma of the mid-1980s carries little weight next to the larger trend which has been apparent since the 1940s – namely, that agriculture's relative share of Australia's overall production has fallen. But real farm output has increased, to the point where Australia is one of the world's most efficient agricultural nations.

Thus, whereas agriculture contributed a steady 20-30 per cent of Australian output between 1840 and 1950, by 1987 its share had slipped to only four per cent. In exports, the rural sector's share fell from 86 per cent of the total in 1950 to 31 per cent last year.

Actual output, on the other hand, has shown considerable growth. By last year, wool, cattle, wheat and other grains, milk, sugar and horticulture accounted for more than three-quarters of the A$22bn gross value of farm production.

Australia sees good export potential for rural products to Asia

On the export side, wool, beef, veal, wheat and sugar were responsible for three-quarters of rural exports, and farm exports generally accounted for 40 per cent of all exports.

Half of these farm exports went to developed countries, principally Japan and the US, a further one quarter went to centrally planned economies and the remainder to developing countries.

Down the years, the mix of Australia's farm products has obviously changed. Up to the mid-1970s, wheat and cattle gained in importance while wool contracted. In the mid-1980s, wheat struck problems and wool experienced a boom, prompting a shift away from cropping and into livestock.

But figures from the government's Bureau of Agriculture and Resource Economics show why farmers' anger has evaporated. For three years up to 1985-86, the gross value of farm production was static. Then it rose 12 per cent in 1986-87, 14 per cent in 1987-88 and should rise by another nine per cent in the year ending this month.

After taking into account farm costs, which have also been rising, the net value of production is expected to increase for the third year in succession to reach A$4.2bn, two-and-a-half times the low point of A$1.7bn in 1985-86.

The key reason is the improvement in world commodity prices, which is, in turn, the result of sustained world economic growth and a rundown of stocks. With prices received rising faster than prices paid, the Bureau estimated in December that farmers' terms of trade, which last year recovered to be above the declining long-term trend for the first time in six years, would improve further this year.

The most visible representation of this trend has been the wool price, which increased by some 60 per cent in 1987-88 and continues to maintain its buoyancy despite having come off its peak. Wool now dominates Australian rural prospects. With exports in 1987-88 of A$5.8bn, it is the country's largest single foreign earner, ahead of coal.

Strong prices for other rural commodities, including meat, cereal products and sugar, have led the Bureau to describe the rural outlook as "the most favourable since the beginning of this decade."

While wool is expected to earn less in the current year, the outlook for both the production and export of wheat, beef and sugar is bright.

Amid all this, the Government is trying – so far with mixed results – to make the domestic economy more efficient. For years, all sectors, including agriculture, have suffered badly from costly work practices, over-regulation and an absence of competition.

Belatedly, and despite considerable resistance, Canberra has moved to deregulate the sugar industry, most significantly by removing the long-standing embargo on sugar imports, and has been seeking to deregulate the handling, transport and marketing of wheat.

Also of direct relevance to farmers, it has lowered tariffs on manufactured imports, which should cheapen imported agricultural machinery, and is seeking far-reaching reform of the docks and of coastal shipping, where inefficiencies cost the economy hundreds of millions of dollars each year.

Internationally, too, Australia has been in the forefront of the diplomatic campaign to lower and remove the trade distorting assistance given by countries like the US, Japan and European Community states to their farmers.

Through the Uruguay Round of Gatt negotiations, and with the help of its partners in the Cairns Group of fair-trading agricultural exporters, it has tackled the issues of domestic price supports, market access barriers and export and input subsidies, and notched up important successes.

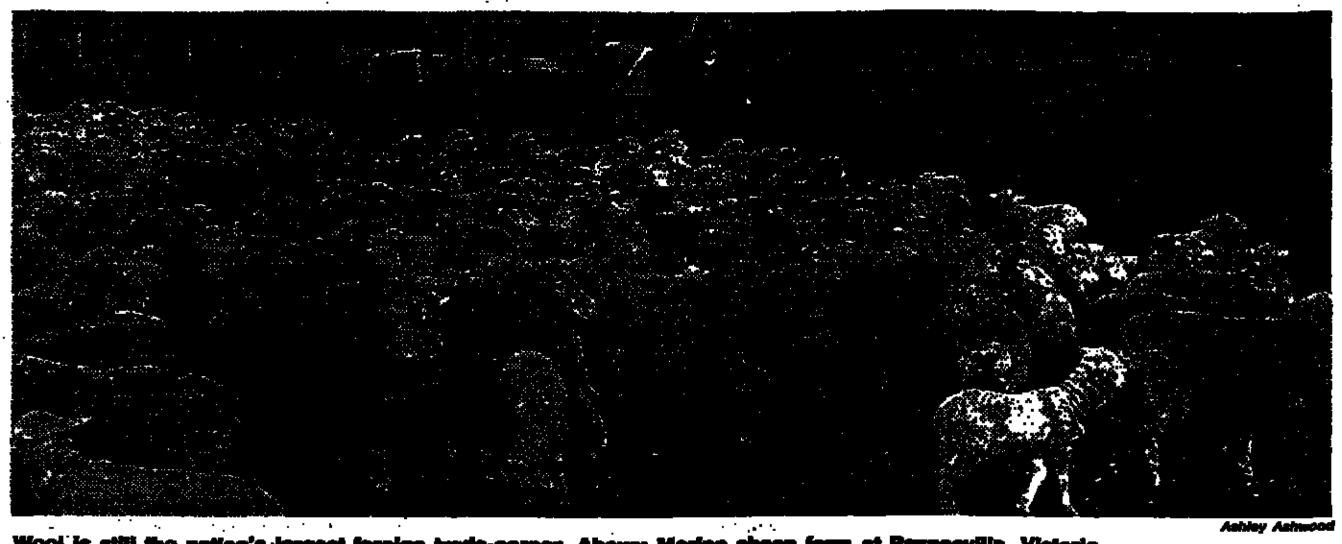
Bilaterally, it has targeted the US Export Enhancement Program which has hurt Australian wheat exports, US sugar import policy, the EC's common agricultural policy and budgeting methods and the Japanese beef regime.

The prospect of easier access to the Japanese market has Australian producers excited, but significant changes on other fronts are still awaited.

Longer-term, Australia sees strong export potential in the developing countries of Asia, which could, according to one estimate, have an economy the size of Japan, the US and Europe combined within 40 years.

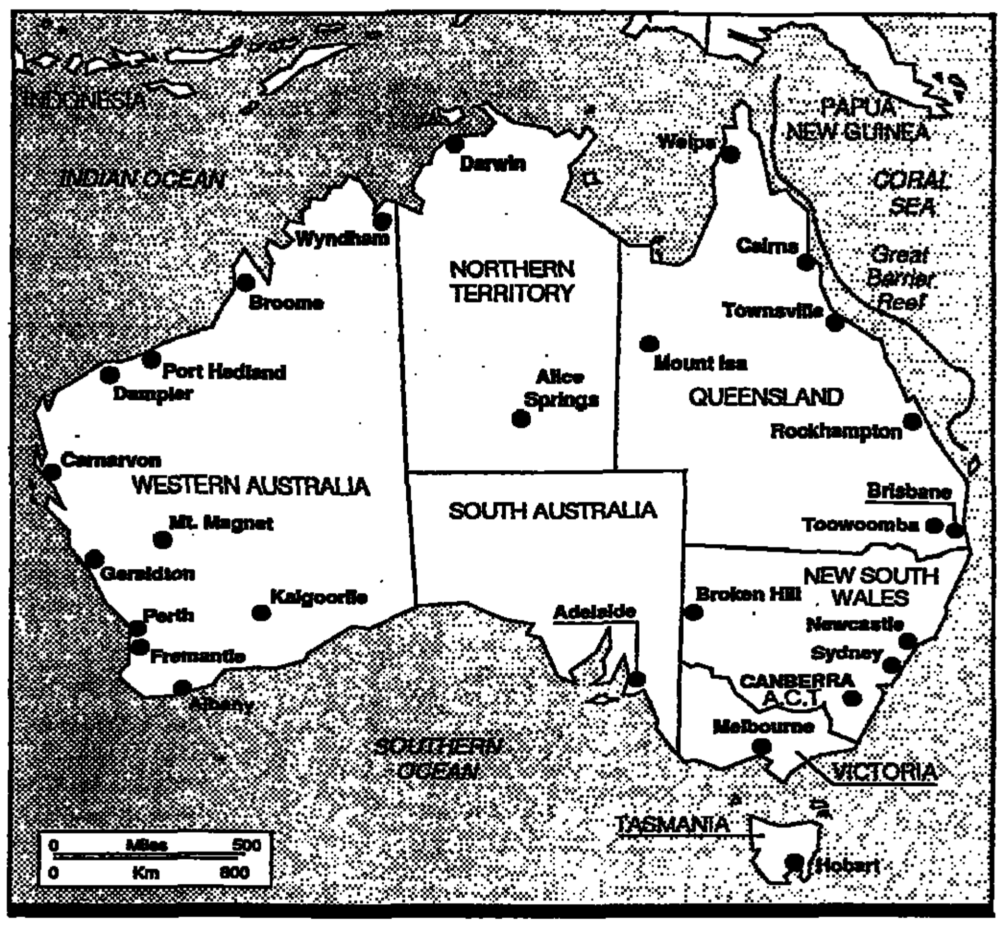
If there is a major blot on this rosy picture, it is the looming crisis over land degradation. Actual estimates vary, but it is agreed that vast tracts of agricultural and pastoral land need treatment, and a significant proportion is beyond help. Improved land management has become imperative.

The catalogue of problems includes water and wind erosion, dry-land and irrigation salinity, chemical contamination, land clearance and a general decline in soil quality through misuse. The issue is so serious, it might eventually bring farmers, environmentalists and governments together.



Ashley Ashwood

Wool is still the nation's largest foreign trade-earner. Above: Merino sheep farm at Paynesville, Victoria.



A new and leaner manufacturing base is emerging, says **Paul Taylor**

Signs of an industrial renaissance

WITH a determination that has to be admired, Australia's Federal Government is attempting what previous administrations have failed to achieve: the restructuring and revitalisation of manufacturing industry.

The sector, which employs just over a sixth of Australia's 7.6m-strong workforce, has "bumbled along for many years," says Mr Laurie Wiggins, senior private secretary to Mr John Button, the Minister for Industry, Technology and Commerce.

It has had a reputation for being inward looking, protected by huge trade tariffs, beset by labour problems and stunted in its growth by the small domestic market. Despite Australia's much-vaunted reputation for basic research and invention, industrial R&D spending has ranked alongside the lowest in the industrialised world.

But the Hawke Government says all that is changing. Import quotas and tariff barriers are being dismantled, corporation tax has been cut from 49 per cent to 39 per cent, and a new leaner, more hungry, industrial base is emerging.

This renaissance is being led not only by the giants of Australian industry, companies such as BHP, CSR and Pacific Dunlop together with those such as Pioneer Concrete and Elders IXL which have established worldwide reputations, but also by many of the 23,000 smaller companies most of which employ fewer than 100 people.

How has this been achieved? Beginning in the 1970s there has been a general trend towards reducing government assistance to industry. Overall the Government claims effective protection for manufacturing has been reduced from about 36 per cent in the early 1970s to under 20 per cent today. Most remaining tarrifs will be cut further by 1992.

This, in conjunction with the substantial post-1983 devaluation of the Australian dollar, has helped focus industry attention on international competitiveness. With a floating exchange rate and volatile commodity prices, perhaps the biggest challenge facing Australian manufacturing today is to develop an enduring comparative advantage.

One way to achieve this would be by adding further value to Australia's abundant natural resources.

"We have been good at being the farm and quarry for the rest of the world," says Mr Wiggins, "now we have to move downstream."

Some companies, including BHP, Comalco, MIM and ICI Australia, have begun to respond to this challenge. But others question whether, given high labour and transport costs, further moves downstream make corporate economic sense.

A second favoured government option involves attacking high technology niche markets such as measuring, instrumentation and medical equipment. This is reflected in the Government's effort to promote research and development, particularly the "development" part of R&D or the commercialisation of research inventions.

As Mr Bob Hawke, the Prime Minister, noted in a major statement on science and technology last month, "Australia has a record of failing to recognise the significance of discoveries in Australian laboratories, witness our rejection of the 'black box' flight recorder, computing and transistors in the 1950s which set us back 30 years in electronics. We need widespread changes in attitude to turn this pattern around."

The Government is attempting the restructuring and revitalisation of manufacturing industry

Publicly-funded R&D as a proportion of gross domestic product in Australia is about average when compared to other OECD countries. However, private sector outlays are substantially lower than in most industrialised nations.

As a result, overall Australian R&D represents about 1.3 per cent of GDP compared with more than 2 per cent for many of the OECD nations and more than 3 per cent in Japan.

Dr Keith Boardman, chief executive of the Commonwealth Scientific and Industrial Research Organisation (CSIRO), which is the main channel for Government R&D spending, said recently that the weakness of Australian science and technology has reflected:

● A scientific community which is remote from industry;
● The protected, fragmented, inward looking nature of the manufacturing sector with a high level of foreign ownership that has lacked the incentive or the need to invest in R&D.
● A succession of governments that have ignored the central role played by technology in economic growth; and
● The peculiar antagonism that exists in Australia between the public and private sectors.

To address some of these problems the Hawke government has taken a number of measures, including providing grants for industrial research, encouraging inward investment by joint ventures with an Australian partner, and prodding multinationals bidding for government contracts to undertake more research and development in Australia.

In addition, tax incentives for research and development work have been introduced, and CSIRO has been encouraged to supplement its government funding with contract work and joint commercial ventures with industry.

Within the manufacturing sector there are some signs that both managements and the unions are beginning to accept the new economic realities.

Most of the traditional industries, steel, shipbuilding, automotive, textiles, clothing and footwear, domestic appliances and processed food, have either completed or are in the midst of restructuring. This involves rationalisations, mergers and job cuts, coupled with new investment in modern plant and equipment.

A particular example is the dramatic turnaround of BHP's steel operations. Eight years ago the very viability of BHP's steel operations were in doubt.

Since then the workforce has been slashed by more than 50 per cent to 18,000, and a five-year A$1.8bn investment programme has been completed.

Improved productivity has meant the steel division is on track to make A$420m in the current financial year – becoming BHP's biggest earner.

In the minerals and natural resources processing industry huge new investments have been completed or are under way in aluminium, nickel, mineral sands and in paper production.

Critics argue that much of this new capital investment represents little more than a catching-up process – replacing old equipment with new a long time after it should have been done anyway.

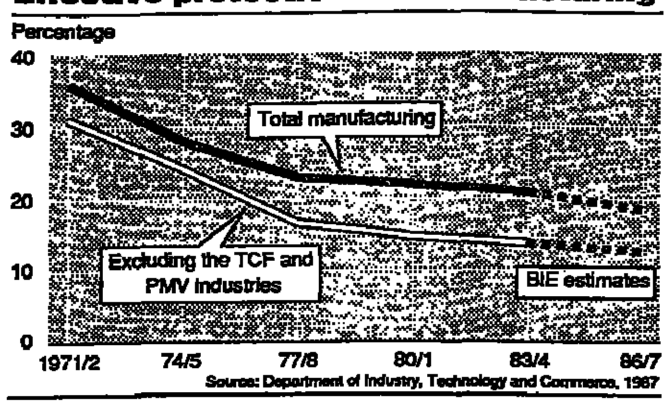
But firm commodity prices, deregulation of the financial markets which has provided easier access to capital, and the union "accord" with government – under which real wages have been cut and more flexibility introduced in some areas – have made new investment more attractive.

If the equation hangs together, and Australian manufacturers learn to compete in the world, and Asian markets in particular, then there could be a brighter future for the sector.

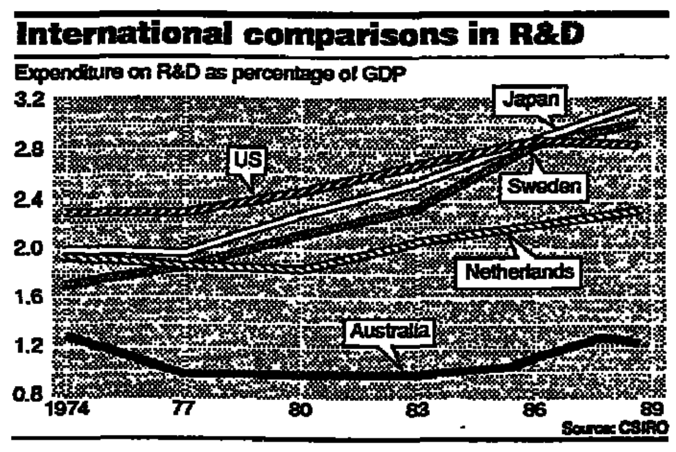
"Industrial policy is no longer dominated by import substitution through barrier protection against overseas competition," Mr John Button, Minister for Industry, Technology and Commerce, claimed 18 months ago in a glossy brochure titled *Australian Industry: New Directions*. "The emphasis is now on international competitiveness, export orientation, research and development, innovation and marketing."

Even his critics hope he is right. Certainly the Government has begun to foster a new environment for industry. It is now up to Australian industrialists and the trade unions to take up the challenge and relegate the country's tarnished manufacturing image to the history books.

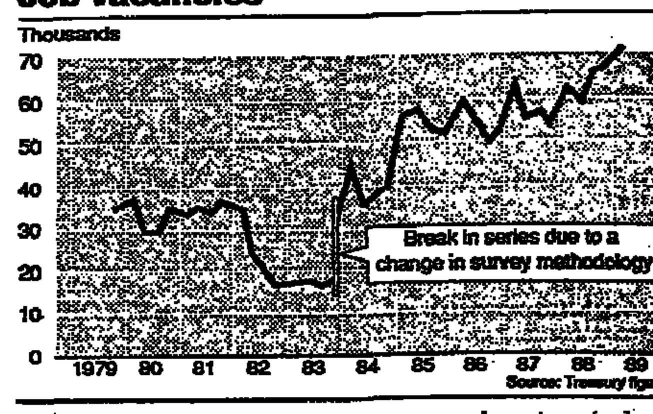
Effective protection for manufacturing



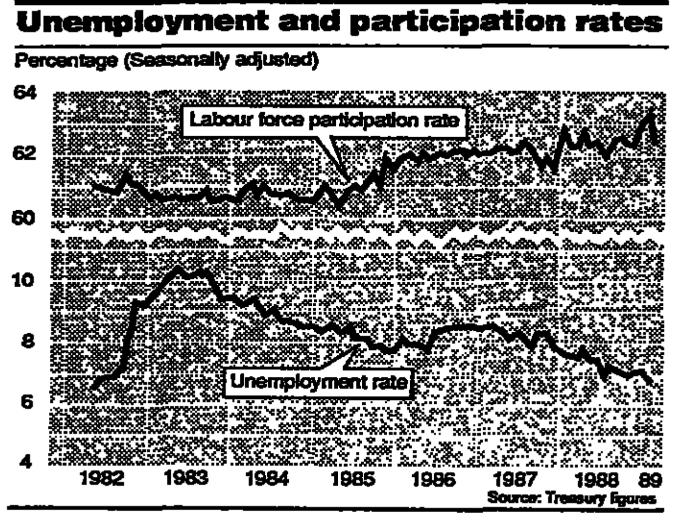
International comparisons in R&D

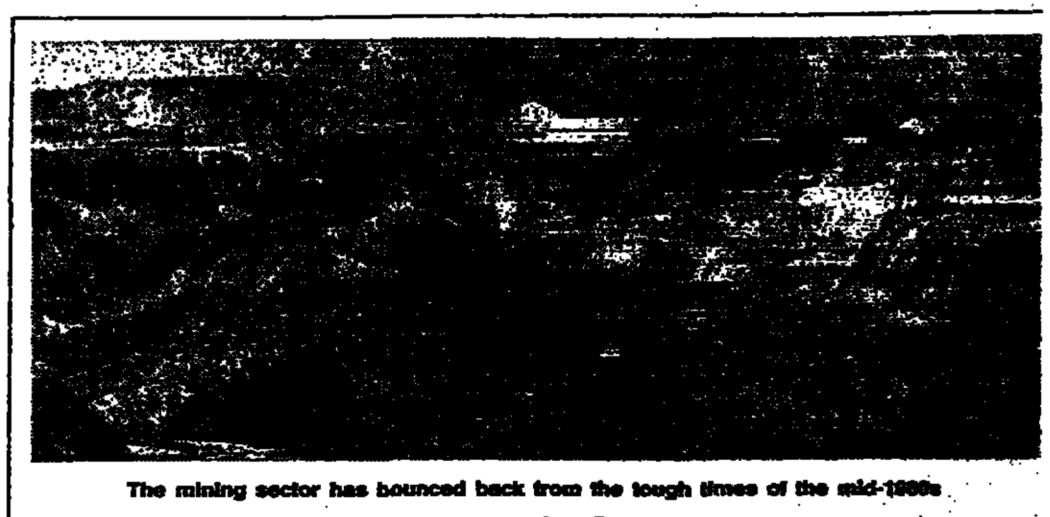


Job vacancies



Unemployment and participation rates





The mining sector has bounced back from the tough times of the mid-1980s

MINING

Profits are rising

AUSTRALIA is indeed the "lucky land." Its ancient geological structure has proved the storehouse for vast mineral wealth.

Together with wool, these minerals have been the mighty engine for its 200-year economic development and led to its reputation as the "farm and mine of the world."

Today, the country ranks as the world's largest producer of lead, the second largest producer of zinc, a leading copper producer, the fourth largest gold and industrial diamonds producer and the major source of valuable mineral sands like zircon, rutile, monazite and ilmenite. It is the leading exporter of both coking and steaming coal and of bauxite and alumina.

If government restrictions over the mining and price of uranium had been eased, it might well rank as the world's biggest uranium producer, too.

The companies which have grown up to exploit this natural windfall, groups like BHP, CRA, Western Mining, CSR and MIM, are the backbone of the nation's economy and its financial strength.

Some are now talking about "the Lucky Land's third gold rush"

BHP, the diversified minerals group and Australia's biggest company, alone represents almost two per cent of GDP, provides nine per cent of the country's exports and its shares represent 10 per cent of Australian companies total market capitalisation.

After going through a particularly tough period in the mid-1980s, the sector has bounced back, buoyed by relatively firm commodity prices and, until recently, a weak Australian dollar. Higher profits have been used to bolster balance sheets and pay back debt, to fund an exploration boom particularly in Western Australia where over A$450m was spent on exploration last year, and for acquisitions, both domestic and international.

In the gold mining sector the country has been going through what some have described as Australia's third gold rush, (the first was in the 1850s.) This year, gold production is expected to total about 175 tonnes compared with 150 tonnes last year and 84 tonnes at the height of the 1850s gold rush.

While Australian companies are heavily involved in the recent big finds in Papua New Guinea's "Rim of Fire," the latest boom has come largely from the reworking of old mines in Australia – many abandoned after the 1850s gold rush – using new technology capable of extracting lower grade ores.

This has been augmented by some new discoveries, particularly in Western Australia which accounts for 70 per cent of total Australian production, and in the Northern Territory. But the gold rush could be faltering under the impact of declining world bullion prices, made more marked by the recently strength of the Australian dollar, and the threat of higher tax obligations in the future.

Last year, the Government announced its decision to remove the long-standing exemption from corporation tax enjoyed by gold mining companies.

Unless the industry can successfully mount a rearguard action to delay the tax – something which looks unlikely at present – it will come into effect in 1991.

As a result, gold companies have been trying to beat the deadline by boosting production and "high-grading" their orebodies at the very time that they face a squeeze on prices.

While the big producers may be cushioned by forward sales and low production costs, many analysts believe some of the smaller companies with higher marginal costs could be forced to close down or sell up.

In other mining industry sectors, different solutions are being found to offset commodity price volatility. Base metal prices have rallied sharply in recent years and Australia's big aluminium, alumina and bauxite producers, such as Alcoa and Comalco, and the diversified base metal companies like CRA and MIM have been reaping the rewards.

Now the major base metal producers are investing heavily in downstream processing facilities to add value to their exports and minimise the impact of price and foreign exchange volatility.

Developments are also looking somewhat brighter for Australia's restructured coal industry, concentrated in the underground pits of New South Wales' Hunter Valley and Queensland's vast open cut coking coalmines.

Firmer prices and more flexible working practices have helped staunch the losses of the mid-1980s, although progress is slow, particularly on the labour front and the industry, large chunks of which have been sold to foreign buyers, remains highly sensitive to currency movements.

Last September, the coalminers agreed to a package of changes including seven-day shift working and the cancellation of the traditional three-week Christmas shutdown. While local implementation of the agreement has proved more problematic, particularly in New South Wales, the deal could lead to dramatic increases in production and productivity.

In Queensland, which has some of the best black coal in the world, other issues have still to be addressed. These include restrictive practices in costal shipping and the docks and high local rail transport costs.

According to some estimates, rail freight, port and royalty charges account for an average of 43 per cent of the coal industry's cash costs. The state has recently agreed to cap further increases in rail charges and royalties – a move welcomed by the big coal mining companies such as MIM which got badly burned by its heavy investments in coal in the early 1980s.

Since then, MIM has cut costs, reduced its debt dramatically and is in the process of selling a 25 per cent stake in its Newlands/Collinsville/Abbot Point coal operations to Agip, the Italian energy group.

Australia's *other major* energy exports in the 1990s will come from the massive investments made in developing the North West Shelf.

Woodside Petroleum, the developer – and its international partners – have spent A$12bn over a decade developing the offshore natural gas field which is due to start export phase production later this year under 20-year liquid petroleum gas export contracts negotiated with Japanese utilities.

Elsewhere in the energy resources sector, the race is on to find new oil reserves to replace the now declining stocks of the Bass Strait fields which, together with the more recently developed Timor Sea deposits, represents Australia's major oil reserves.

Conservationists have put the brake on the mining of mineral sands

Were it not for Australia's fervent anti-nuclear stance, the country would have a third major energy source for both domestic consumption and export – uranium.

At present, the Government operates a strict price and production controls over uranium mining operating a so-called "three mine" policy.

Many within the industry argue that as a result Australia has forfeited its full potential as a uranium exporter and allowed other countries like Canada to steal the market. However, although the three-mine policy is currently under review, there are serious doubts about whether it will be changed, in part because of the growing influence of the environment lobby in Australia.

The conservationists have also succeeded in putting a brake on what is potentially Australia's other growth mining industry: mineral sands.

The country is rich in valuable mineral sands – minerals which are being increasingly used in modern industrial processes and manufacturing.

While Australia is already the world's largest producer of several of these minerals new projects, particularly in Queensland and Western Australia, face the threat of being halted or never getting started, because of environmental pressures.

The key question posed by the mining sector, responsible for over 45 per cent of Australia's exports, is whether Australia can afford such "luxuries." The answer, according to the industry, is: "No."

Paul Taylor

Paul Taylor discusses the attractions and drawbacks of the tourist industry

'Land of wonder' has two faces

AUSTRALIAN tourism has two faces: one is the sheer magnificence of the Great Barrier Reef, the 23,000 miles of mostly unspoilt coastline, kangaroos, koalas and other strange beasts, the tropical rain forests of the north, Australia's desert "rock garden" - Ayers Rock.

As one American tourist said: "There is nothing but scenery all around."

The other, less appealing aspect of Australian tourism is high domestic airline fares and inconvenient schedules, expensive hotel rates, a dearth of taxis in most cities and a serious lack of quality souvenirs – unless you want synthetic stuffed koalas (made in Taiwan) or "genuine" boomerangs that do not come back.

In short, Australia, blessed with so much obvious tourist appeal and potential, risks failing to fully capitalise on a third desperately-needed foreign exchange earner to add to its agricultural and minerals exports. Fortunately, the figures show this has not happened yet.

Australia's first large-scale "international arrivals" came

Australia attracts less than 1 per cent of international tourism

in chains aboard convict ships from Britain, 200 years ago. In contrast, today's sun-seeking international adventurers are disgorged, jet-lagged, in their thousands, by jumbo jet.

The "land of wonder" is a relatively new international tourist destination. But growth in international visitors has averaged more than 25 per cent a year for the past three years – way ahead of tourism growth, internationally. The volume of foreign visitors has increased from 948,900 in 1983 to 2.25m last year – the second consecutive year that international arrivals exceeded the number of traditionally footloose Australians going overseas.

Last year's A$5.2bn receipts from international tourism exceeded those from coal for the first time, making tourism Australia's second most important foreign exchange earner after wool. Despite this, Australia is still running a negative but rapidly narrowing tourist trade balance.

No one believes recent growth rates in inbound Australian tourism can continue. The numbers have been helped by one-off events such as last year's bicentennial celebrations and Brisbane Expo world fair and free publicity from Crocodile Dundee's amphibian wrestling exploits (set in the Northern Territory's Kakadu National Park) and now probably by the popularity of the "Neighbours" television soap.

But Australia still only attracts less than 1 per cent of international tourism, so the potential for significant longer term growth still exists.

Mr Bill Faulkner, director of the Canberra-based Bureau of Tourism Research, predicts that tourist arrivals will increase by an average seven per cent a year over the next decade to reach about 5m by the turn of the century.

Many, including Mr Tony Thirlwell of the Sydney-based Australian Tourism Commission, believe this estimate is too low. The ATC is predicting 7.5m international visitors by 2000, provided transport and hotel capacity keeps pace with the surge in demand.

On either estimate it is clear that such growth will put further strain on the tourism infrastructure. As the ATC itself acknowledges in its lastest annual report, if problems such as airport congestion, high prices and other factors like the lack of foreign language skills among tour guides are not addressed quickly, then they could put a brake on tourism growth.

Sydney airport, Australia's main international gateway, is already overcrowded and congested – something not helped recently by an air traffic controllers dispute which has left many irate tourists stranded for hours. There are plans to expand Sydney airport's capacity and to further develop Australia's other air gateways, but progress is slow.

Another serious restricting factor in unlocking Australia's full tourist potential remains the distances involved. Australia is big – larger than Western Europe and as big as all 48 mainland US states.

The cosy duopoly operated by the two major domestic airlines, the state-owned Australian Airlines and privately-owned Ansett, has kept air fares high – high enough to mean that many Australians choose to fly to Bali for their holidays rather than pay for expensive domestic flights. If they holiday in Australia, almost 80 per cent of them go by car.

But from next November airline fares and routes are being deregulated. While some Australians fear this will lead to poorer services to the less obvious business and tourist destinations, others argue this risk will be offset by the benefits of greater competition.

More competition and capacity is coming to international flights, as well. Currently, the market is dominated by Qantas, the Australian national airline, which carries 43 per cent of all inbound passengers. The remainder is divided between the 37 other carriers that fly into Australia. Seventy per cent of all the available seats are full.

But the Government is slowly negotiating new bilateral aviation treaties with other countries, most recently with Singapore and Thailand, although there are still no direct flights from other potential growth markets like Korea and Taiwan, and a dispute between Qantas and Hong Kong's Cathay Pacific has prevented extra services on the Hong Kong route for the past three years.

Meanwhile, the influx of tourists has put upward pressure on hotel wage rates (generating a boom in degree-level hotel management courses) and on room prices, which in some cases have almost doubled in the past two years.

In response, a hotel building boom is now under way. Recent government figures show that at the end of December tourist projects under con-

The fastest growth in tourism has been in arrivals from Japan

struction or committed totalled A$15.5bn, a 44 per cent increase over the figures for the previous quarter.

In Sydney alone, 15 new hotels have been built or will be built over the next four years increasing the number of luxury rooms by about 2,000 to 5,600. Even then, however, there remains a shortage of more moderately-priced hotel accommodation in Sydney and elsewhere.

Other factors are also helping reshape the Australian tourist industry. While, at the moment, the south-eastern states of New South Wales and Victoria together with Queensland grab the lion's share of international tourism, this could be changing.

Newfound passions for adventure holidays are encouraging tour operators to offer holiday packages to some of Australia's more remote regions.

Entrepreneurs such as Britain's Lord Alistair McAlpine are pouring millions into new resort projects – in his case, an estimated A$50m into the lavish Cable Beach Club, a few miles outside Broome in the north of Western Australia.

The mix of tourists visiting Australia has already changed radically. Five years ago visitors from New Zealand and Europe, particularly the UK and Ireland, topped the list. While tourist arrivals from these areas have continued to increase the fastest growth has been in arrivals from Japan.

The 352,000 Japanese visitors who visited Australia last year now represent 16 per cent of all arrivals, double the proportion in 1983, and have overtaken the US as the second biggest source of tourists after New Zealand.

This reflects not only the buying power of the yen, but also skilful promotion by the ATC of Australia as a destination for Japanese honeymooners in particular. According to the Commission, nearly 50 per cent of all arrivals from Japan are honeymooners.

Japanese tourists are also big spenders. Although they tend to stay for shorter periods they spend more intensively – an average of A$160 a day or almost three times as much as other tourists.

Over a third of that is spent on shopping – a figure boosted by the traditional custom of *omiyage* or buying small gifts for family and friends. But much more might be spent if Australia provided more quality locally-produced souvenirs.

The surge of Japanese tourists into Australia, together with an explosion of Japanese property acquisitions, particularly of hotels, golf courses and leisure complexes, has already led to some concern, particularly in conservative Queensland, their favourite destination.

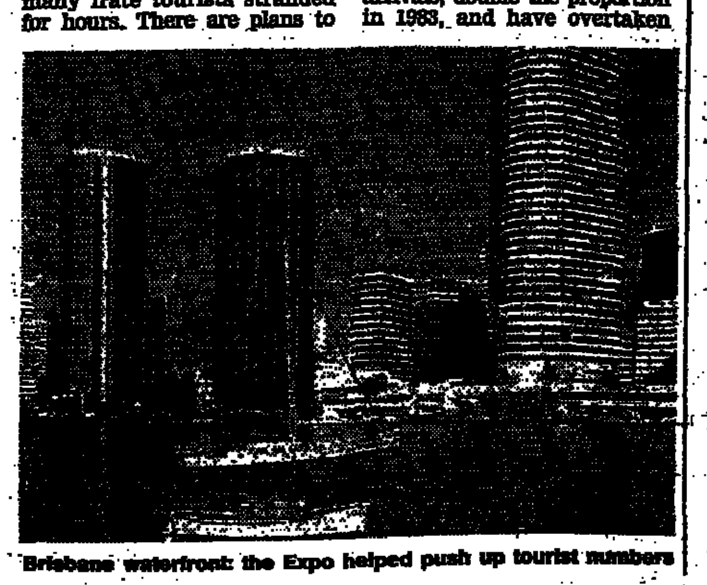
But the Australian tourist industry needs foreign and particularly Japanese capital if it is to develop. Japanese investors now own, or have big stakes in, the two biggest hotels in Cairns, six hotels on Queensland's Gold Coast and eight Sydney hotels. Japanese groups which have acquired Australian hotels include EIE, Daikyo Kanko and Matsushita.

Among other recent Japanese investments Nippon Shinpan, the largest Japanese consumer credit organisation, and Mitsui, the Japanese trading house, paid A$443m in March to acquire a 49 per cent stake in the Mirage luxury resorts developed by Mr Christopher Skase's Qintex group.

As the Financial Review newspaper noted recently, "while the Australian institutions have distanced themselves from hotel investment, generally rationalising their tourism interest over the last 10 years, major Japanese groups have gone about the process of vertical integration into the tourism markets of Japan, Hawaii and the South Pacific basin."

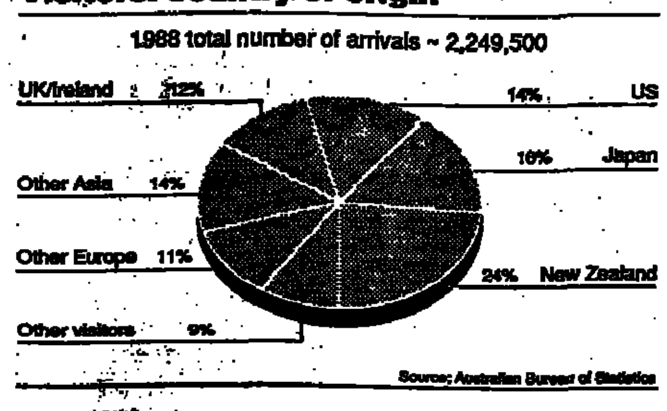
Japanese investors are taking a long-term investment view of tourism in Australia. That longer view also suggests that the new wave of tourist arrivals in Australia will come not only from Japan, but also from the newly-rich emerging Asian nations like Korea, Taiwan and Singapore.

Whether Australia, and its tourist industry in particular, is ready for this new tourist invasion remains a moot point.



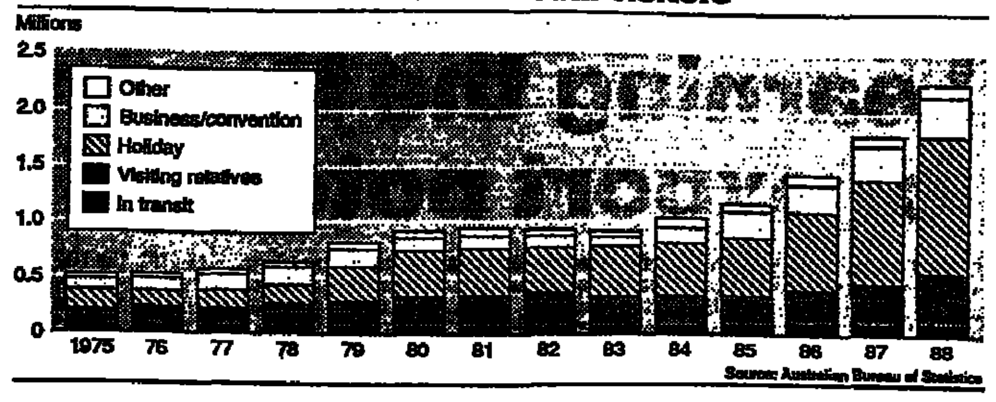
Brisbane waterfront: the Expo helped push up tourist numbers

Visitors: country of origin

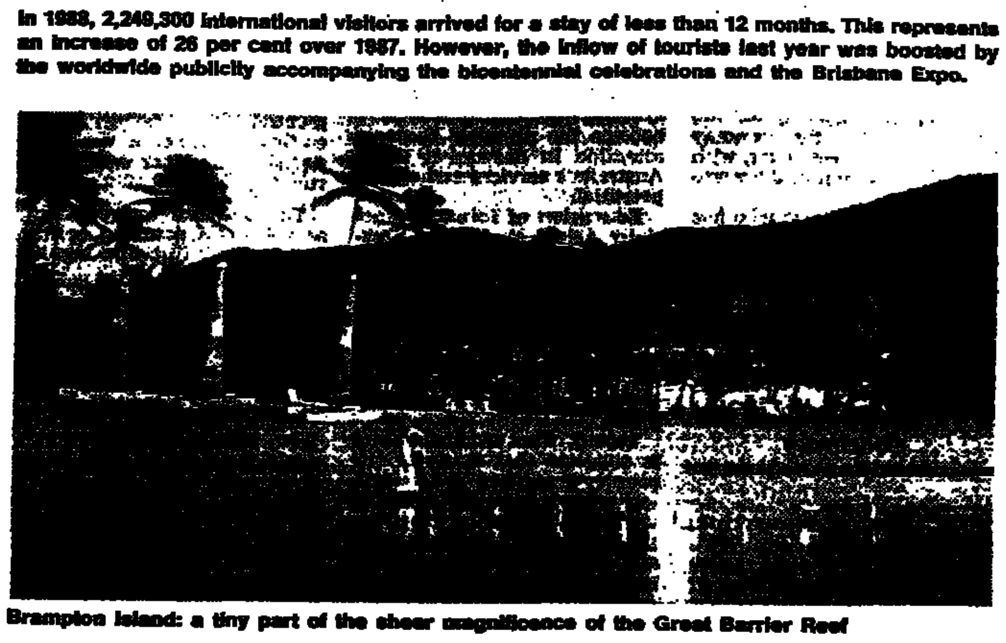


The 352,000 Japanese visitors in 1988 now represent 16 per cent of all arrivals, double the proportion in 1983. Japan has now overtaken the US as the second biggest source of tourists.

Short-term arrivals of international visitors



In 1988, 2,249,300 international visitors arrived for a stay of less than 12 months. This represents an increase of 26 per cent over 1987. However, the inflow of tourists last year was boosted by the worldwide publicity accompanying the bicentennial celebrations and the Brisbane Expo.



Brampton Island: a tiny part of the sheer magnificence of the Great Barrier Reef

Chris Sherwell looks at the services sector

Learning the lesson of export potential

IT HAS taken a while, but Australians are overcoming their misconceptions about the potential and value of the economy's services sector.

Gone are the days when it was felt you were only producing something worthwhile if you grew it, mined it or manufactured it.

Services now have a 73 per cent share of gross domestic product, making it by far the largest sector of the economy and the biggest employer, with around 76 per cent of the workforce.

But while everyone who has heard about the current account deficit knows that a better export performance is essential to the country's future, not many people realise the services sector provides 17 per cent of Australia's export income and is among the fastest growing sectors of the economy.

Not many realise the services sector is among the fastest growing sectors of the economy

Indeed, the lesson that services are like commodities or manufactured goods which can be traded internationally is still being learned.

It has been absorbed most tellingly in tourism, which has grown so rapidly it accounts for more than half of Australia's services exports. Thus, passenger and travel services produced export earnings of around A$4.5bn in 1987-88, out of total services exports of A$8bn – itself a figure showing that services earnings are close to earnings from manufacturing exports.

The second most important element of the country's services exports is transport, associated with the carriage of merchandise trade.

Being a major trading nation, Australia can earn foreign exchange through the provision of freight and port services. In 1987-88 this amounted to more than A$2bn.

The third, residual category of tradeable services covers a range of activities – education, medical services, insurance, legal services, advertising, technical services, consultancy – and, of course, financial services, which are best known because of Australia's comprehensive financial sector deregulation since 1983.

It is these services, which are estimated to contribute around A$1.5bn, which have become the principal focus of attention in discussion about Australia's services and export potential.

Education of foreign (especially Asian) students is reckoned to offer enormous possibilities, and the experience of Bond University, the first privately-owned university in the country, is being closely watched. The same is true of medicine with an organisation like the Ramsay group of hospitals.

Indeed, what evidence there is suggests that many of the country's services are becoming more competitive in the world market. According to the Department of Foreign Affairs and Trade in Canberra, quoting United Nations sources, Australian firms and companies are among the world's top 20 in numerous industries.

For example, Mr Rupert Murdoch's News Corporation media group is in the list for publishing, Coles Myer is one of the top retailers and Elders IXL is a major trading company. Also mentioned are TNT in air transport, Mayne Nickless in security transport, the Ramsay group in hospitals and Allen Allen & Hemsley, part of the Australian Legal Group, in legal services.

Beyond this, it is well known that Australia's top three private banks – Westpac, National Australia and ANZ – have each spread their wings internationally. So have other major groups involved in services, like Brambles (transport), Qintex (resorts and entertainment), AMP (insurance), Ansett (aircraft leasing) and the Overseas Telecommunications Commission (telecommunications).

Yet the fact remains that Australia is suffering a chronic deficit in its services trade. The countries which are its biggest markets – the US, the UK and European Community, Japan, the Asean group of countries in South East Asia and New Zealand – are also its biggest suppliers of services.

In 1986-87, the trade in services component was A$3.5bn in deficit, or 26 per cent of the overall current account deficit. In 1987-88 it was A$3.25bn, still 26 per cent. But in the first 10 months of the financial year ending in June, it was only A$2.4bn, or 17 per cent of the running total.

The need for improvement, as well as the potential, is thus self-evident. But one significant issue for Australia is whether the current Uruguay Round of trade negotiations under the Gatt will reach an agreement to ensure fair terms for trade in services by the target date of 1990.

Education of foreign (especially Asian) students is reckoned to offer enormous possibilities

With one quarter of all world trade now in services, and competition in this sector rapidly intensifying, Australia's chances of using services to overcome its deficit hinge crucially on the establishment and maintenance of a free-trading regime.

The principal complication lies in the concept of "reciprocity", which is far more difficult to apply to trade in services than trade in goods. This is because services are, by their nature, more diverse in their production and distribution, and more varied in the competition regimes under which they operate.

The expectation is that countries involved in services trade, in the long run, will need to harmonise national laws on foreign competition in their service industries. For now, however, the Government is simply describing results so far in the services area of the Gatt negotiations as "positive".

Bruce Jacques reviews rationalisation in the banking industry

Big four put squeeze on foreigners

SINCE 16 foreign banks were allowed into the Australian market in the mid-1980s, the relatively small economy has been chronically over-banked.

With a population of just 17 million people, the country now has some 30 banks, and the latest year has seen the inevitable fall-out from the overcrowding, beginning a rationalisation process that is likely to extend well into the 1990s.

And the biggest casualties look like being the foreigners who enthusiastically rushed into the Australian market, although there is also plenty of manoeuvring among the locals. About the only banks which are not under financial pressure are the big four domestic trading banks which have followed a kind of divide and conquer strategy since the Federal Labor government was brazen enough to open their market to full competition.

The big four – privately-owned Westpac Banking Corporation, the National Australia Bank, the ANZ Banking Group and the Federal Government-controlled Commonwealth Banking Corporation – increased their market share in 1988, leaving both the foreigners and the smaller domestic banks fighting over the dwindling remainder.

The lop-sided structure of the Australian banking market was reinforced in May with the three big private banks all reporting after-tax earnings rises of more than 50 per cent for the March half, despite some nasty bad and doubtful debt problems.

The major Australian banks have also become probably the highest dividend payers of any banking sector in the world with payout ratios averaging nearly 80 per cent in the latest full year and above 50 per cent in the latest half.

Against this, many of the foreign banks have struggled, with UK-based National Westminster the most public confirmation of problems in the sector. The bank slid to a loss of nearly A$30m in the latest year and has radically scaled down its operations. Another loss maker has been Bank of Singapore, recently taken over by its parent, the Oversea Chinese Banking Corporation.

UK-based Standard Chartered and Barclays also endured big earnings falls, while Citibank, Chase AMP, National Mutual Royal and BT achieved strong performances, thanks mainly to well-established local bases built before they were formally awarded banking licences.

The market share performance underlying the great disparity in these numbers has been confirmed in most industry research documents, but none has summarised the industry more comprehensively than the annual Peat Marwick Hungerfords banking survey, released early in June.

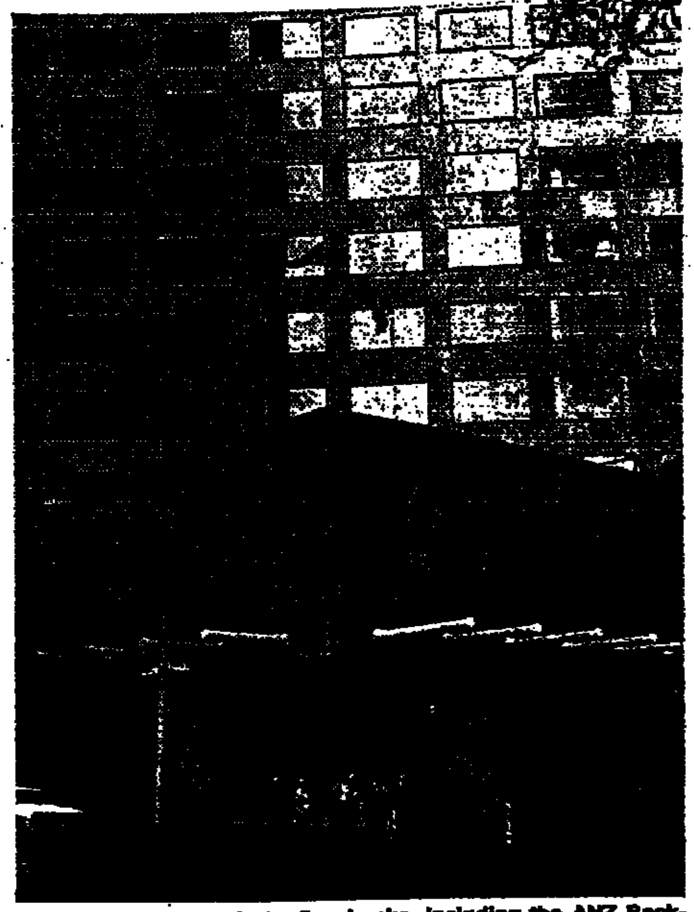
It showed that the foreign banks have only managed to take about 5 per cent of the local market from the domestic banks over the past half decade, and even that is being won back. The domestic banks had 68.5 per cent of the market at the end of 1984, dipped to 63.5 per cent by the end of 1987, but have since clawed back to 64 per cent.

The biggest casualties look like being the foreigners who rushed into the Australian market

Peat Marwick Hungerfords' analysts say the big four banks also particularly dominate trading bank business with a market share of 73.7 per cent. "The figures show that after a number of years of aggressive efforts to obtain market share, the foreign banks actually lost market share in 1988, both in terms of assets and profits," they said.

"While the domestic banks' growth in 1988 was far greater than in 1987 (assets increased by 20.6 per cent compared to 14.7 per cent and profits increased by 46.9 per cent compared to 1.3 per cent), the foreign banks' growth was dramatically reduced (assets increasing by 12.2 per cent in 1988 compared to 31.1 per cent in 1987 and profits increasing by 34.2 per cent compared to 811.7 per cent).

"Profitability of the domestic banks continues to far exceed that of the overseas entrants. The domestic banks achieved a return on assets of 0.77 per cent compared to the foreign banks' 0.52 per cent.



The big four domestic trading banks, including the ANZ Banking Group, have followed a divide and conquer strategy

In terms of return on assets, the domestic banks, with a return of 13.47 per cent again more than doubled the foreign banks return of 6.25 per cent. The domestic banks also outperformed the foreign banks across all efficiency measures. However, one ratio in which the foreign banks did achieve a better result is the doubtful debt to receivables ratio."

While the foreign banks clearly have the biggest problems, the smaller local banks are also struggling against their much bigger rivals. The aftermath of the 1987 share crash, and spiralling local interest rates have made some of the smaller fry vulnerable to take over.

Westpac has been first to position as a catalyst for change, by taking strategic stakes in Advance Bank and Challenge Bank, both former building societies.

Westpac appears undaunted by Australian law which says that no single shareholder can take more than 15 per cent of a bank without specific approval from the Federal Treasurer.

Westpac has spent more than A$50m on its positions and full bids for the two smaller banks would cost more than A$1.1bn. The bank has effectively paid a deposit for the best seat to influence change at Advance and Challenge, even if it does not bid itself.

But a number of banking analysts believe the pressure on smaller banks is just a sideshow to some much bigger take-over possibilities. One emerges from the growing pressure for privatisation of the large number of government-owned banks which have developed from Australia's Federal political system.

Although the Federal Government is proceeding slowly down the privatisation path, the opposition parties are pledged to sell off the Commonwealth Bank. And some of the states have already made moves towards privatising their comparatively large banks, which collectively control about 21 per cent of the local market.

But international investment bank, BZW, cautioned in a recent Australian banking analysis that rationalisation on a grand scale is unlikely without privatisations or a profitability squeeze on the majors. But BZW says the conditions for this could exist by the early 1990s.

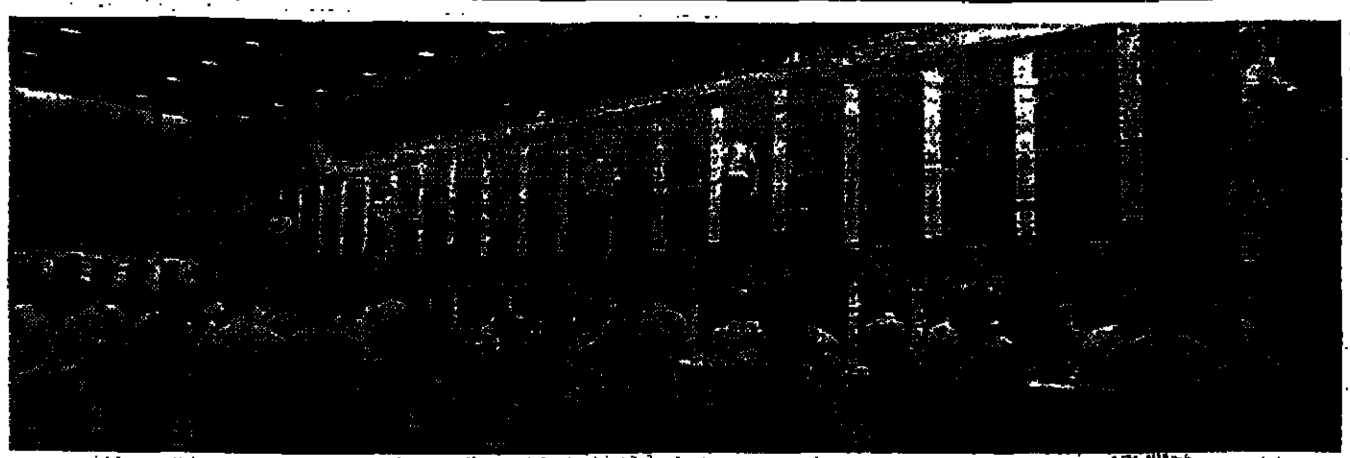
"The changing business environment in Europe (with 1992 approaching) and in the US (with interstate banking regulations being phased out) will mean that overseas growth opportunities will be available to Australian banks and that rationalisation of the Australian operations of foreign banks may occur," the analysis said.

The major banks have become probably the highest dividend payers of any banking sector in the world

"Possible outcomes include:

- The formation of a network of state banks over Australia to compete as a fifth force;
- The merging of the Commonwealth Bank with any of the big three listed banks, possibly followed by a merger of the other two;
- The Thatcher-style privatisation of the Commonwealth Bank; and
- The amalgamation of some former building society banks to form a stronger nation-wide banking network."

BZW concludes that the major Australian banks are well placed on a world scale, having comparatively minuscule exposure to LDC debt, generally strong capital adequacy ratios and earnings per share growth prospects which are comfortably double the average levels in the UK and Europe, well ahead of US competition, and even shading Japanese banks.



Things will get worse before they get better

The stock market is still shell-shocked

Brokers in crisis

LIKE MOST of its overseas counterparts, the Australian stock market is still operating in the shadow of the October 1987 crash – perhaps more so, because Australia was hit harder. The antipodean reliance on resources and entrepreneurial issues ensured that.

From its September 1987 peak to its February 1988 trough, the Australian market's main indicator, the All Ordinaries index, fell almost exactly 50 per cent. By early June, 1989, it had recovered 30 per cent, but still stood 30 per cent below its peak.

But far more worrying to the Australian securities industry than the stock price erosion is a huge fall in turnover which has cut stockbrokers' income to crisis levels. Daily share turnover was running comfortably above A$400m in the months before the crash, but has since declined to around A$150m.

Inexplicably, this slump in volume was accompanied by a marked increase in the number of brokers operating locally. For a while, the industry tried to defy the very cost-cutting measures its analysts routinely demand of listed companies.

Deregulation, and the opening of the industry to outsiders brought a rush of overseas-backed groups into the broking game, swelling the number of brokers from just over 100 in the mid 1980's to 114 at the peak of the market. Some of the newcomers are major bank-backed groups with long pockets and a matching long view of the industry. But an increased number of brokers chasing a declining amount of business could only ever have one result.

The surprise was that the shake-out took almost a year to occur. Some brokers had been trimming staff since the crash, and a couple of smaller firms either closed their doors or merged in 1988. But the first sizable casualty didn't emerge until May this year.

And sadly, the old adage was proved that when the brokers themselves start to seek public listings, the peak of the boom is near. Jacksons became the first local stockbroker to float, just months before the share crash. The company, which has long been a specialist in the more speculative mining floats, fell almost immediately onto losses, and after vain attempts to rationalise, was placed in receivership.

There is still a possibility that the broker's business, once among the top 10 in Australia, will be snapped up by an industry colleague, but the real worry is whether any other local brokers are likely to go the same way.

There seems little doubt – in the absence of a rally which brings international investors flooding back to the Australian share market – that things will get worse before they get better. And one of the major reasons is the inefficiency which lingers from stockbroking's former "club" atmosphere.

Byram Johnston, an Australian consultant with international accounting firm Arthur Andersen, rates Australian stock broking as one of the world's most inefficient industries. Johnston should know. He personally provides accounting services to more than a quarter of Australia's stockbrokers, and embarrassed the industry mid-boom by revealing a collective A$2bn overdraft which was bound to cause trouble when the crash came.

Johnston estimates that the Australian stock broking industry is losing money at an annual rate of about A$100m because commissions and other fees don't cover the comparatively high fixed costs that go with fat salaries and expensive electronic equipment.

He is particularly critical of the industry's settlement systems: "The infrastructure, where settlement is still manually intensive and flooded with paper, imposes this inefficiency," he says. "It must be abolished and replaced with a fully automated system."

Johnston is also critical of the industry's attempts to introduce a computerised screen trading system known as Seats: "In a sense, Seats is simply making the problem worse," he says. "The market is now equipped to deliver more trades to back offices which are ill-equipped to handle them.

"About 30 per cent of the volume in Australian stocks is traded overseas not because of the Seats issue, but because dealing is too expensive and settlement procedures too cumbersome."

Johnston calculates that back-room costs in Australia are about three times the level in the US: "In our experience, few Australian brokers even know what their settlement costs are," he says.

Facing this sort of financial dilemma, the last thing Australian stockbrokers need is the threat of a rival market taking their business away. But they're now facing just that on two fronts.

First, local institutions are demanding their own Seats trading terminals, hitherto the exclusive province of the securities dealers. The brokers are so far refusing. They say it's only a short step from there to the institutions effectively creating their own market.

The institutions counter by warning that if they're not given access to an efficient and cost-competitive trading system, they'll increasingly by-pass the brokers and trade direct with each other, anyway.

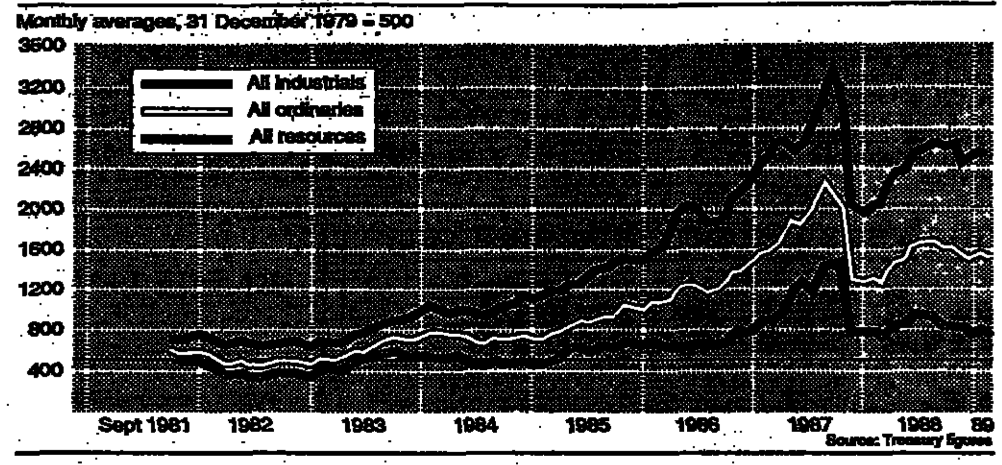
Simultaneously, the Australian stock exchange is facing a threat by the UK-based Reuters group to launch a rival market. Reuters has already applied to the National Companies and Securities Commission for exempt stock exchange status to launch its Instanet trading system in Australia.

The system appears to threaten the brokers on two main counts. It could undercut the stock exchange on cost because of lower overheads and also offers subscribers the ability to deal in overseas as well as Australian shares.

Bruce Jacques

Australian stock market indices

Monthly averages; 31 December 1979 = 500



Source: Treasury figures

Bruce Jacques observes the futures market's coming of age

Careful strategy leads from obscurity to a top-ten place

FEW SECTORS of the Australian economy have benefited more from deregulation of the financial system than futures trading. And while Melbourne has tried to get in on the action, Sydney continues to dominate the Australian futures industry.

Just four years ago, the Sydney Futures Exchange (SFE) was over the moon when annual turnover touched one million contracts. Now trade comfortably exceeds that level in most months. The growth has not been without its ripples – notably the backwash from the 1987 share crash – but the SFE has now come of age as a world ranking futures market.

A careful strategy followed by the SFE administration has seen the exchange emerge from the relative obscurity of rural-based contracts to a position in the world's top 10 futures exchanges by volume. And, like most of its overseas counterparts, the SFE is now dominated by financial contracts.

The Australian economy has easily lent itself to this growth, because deregulation has created a highly volatile economic climate with an unstable currency and large interest rate swings – conditions which are anathema to most businesses, but bread and butter for the futures traders.

The SFE's success owes a lot to an ability to admit a mistake. In 1986, the exchange tried to hitch its star to the wagon of overseas-based contracts, notably gold, US Treasury Bonds and Eurodollar time deposits. This saw the SFE attempt an expensive link with the London International Financial Futures Exchange (Liffe) and US-based Comex, trying to capture trade in the Asian time-zone.

But the SFE found little interest in contracts which the international market was used to trading in the US and European time zones. It has now dropped the international idea and is concentrating on developing maximum liquidity in domestic contracts. The most tangible sign of this has been the opening of a new trading floor, worth about A$5m, and arguably the best-equipped in the world.

Bank bill and Australian government bond contracts are by far the SFE's two most active traders, followed by their corresponding options contracts, and despite slack stock exchange turnovers, the SFE also has an active contract on the country's main share indicator, the all ordinaries index.

These days the renewed domestic focus is one of three main planks in the SFE's growth strategy. The other two are to tap into the still fledgling Asian futures markets and to integrate vertically into clearing and settlement functions.

Exchange chief executive Mr Les Hosking is an enthusiastic observer of Asian futures market development, especially in Japan. He notes that the US has enjoyed 15 years of strong futures growth, and in the past half decade European exchanges have also won a slice of the action.

"But if this industry follows the pattern of just about every other in the world, growth in the Japanese futures industry, and the spin-off for other markets, may well take them to the leading position in the 1990s," Hosking says.

"It is really only in the past few years that the world has fully recognised the importance of the Tokyo Stock Exchange, and although both the Tokyo and Osaka futures markets are among the world's top 10 exchanges, the world hasn't really recognised their importance.

"Now, with the emergence of the Tokyo International Financial Futures Exchange (Tiffex), with Eurodollar and Yen Bond contracts, I think we'll really see spectacular growth in futures trading in the Asian time-zone. As a market on the fringe of the Japanese action, Australia has some great opportunities.

"We don't expect the Japanese to list our contracts, but we've got more than 20 years of futures experience which they don't have, so we can position to ride on their back. We've got some unique advantages. Just because Tokyo is headed towards being the biggest exchange, doesn't necessarily mean it will be the best at servicing clients, especially non-Japanese."

The SFE is looking much more to growth from the Asian connection than from the advent of the new US-based Globex trading system which will allow selected Australian contracts to be electronically-traded after hours. It believes history has already shown its future is in domestically traded contracts in local daylight hours.

Mr Hosking sees his other main strategy – moving downstream into clearing and settlement – as an important balance to the volatility of commission income for SFE members. But the SFE's ambitions in this area have caused the appearance of a public brawl with the UK-controlled International Commodities Clearing House, which has performed clearing and settlement functions for the exchange for most of its 26-year life.

Mr Hosking plays down the public brawl appearance and prefers to describe the developments as "negotiated change". He points out that other world exchanges perform their own clearing and settlement functions.

But for Mr Hosking, it is not just the exchange wanting to flex its independent muscles. He believes the change is necessary to take the exchange into new business areas. "For strategic reasons, it's almost mandatory that we get into clearing and settlement," he says. "It's really a first step towards something else. We could provide clearing facilities for a whole range of high-growth financial instruments that aren't exchange traded, like swaps and over the counter options.

"The 1990s breed of futures investor will be far less interested in how the commodity is traded than how it's cleared and settled. And if things get tough – say there is some sort of crash – those who control clearing and settlement will be the most secure."

Paul Taylor on developments in broadcasting and print media

New vitality follows far-reaching changes

FEW VISITORS to Australia can fail to be struck by the choice and vibrancy of Australian broadcasting. The air waves are positively humming.

This new vitality owes its origins at least in part to a massive upheaval which has taken place in the broadcasting and print media in Australia - it is an industry emerging from an unprecedented period of restructuring brought about by far reaching regulatory changes.

At the end of 1986, the Government redefined the rules for media ownership in an attempt to provide Australians with more choice, particularly in broadcasting, and promote competition in what nevertheless remains a heavily concentrated industry.

Under the new rules media owners were forced to choose between print or the airwaves. Aside from banning cross-media ownership in the same geographic area for new entrants, the new law made sweeping changes to radio ownership rules and, most crucially, swapped a two-station ownership limit for television operators for an "audience reach" rule which, after some political squabbling, was set at 60 per cent.

This means a television operator can own as many stations as it wants, providing the stations together do not broadcast to more than 60 per cent of the Australian population. Given the heavy population concentrations in the state capitals the rule effectively means a television operator can own stations in four out of the five major metropolitan areas.

Within 18 months of the new legislation, the corporate landscape of the Australian media industry had been redrawn.

In television, when the dust had settled, three metropolitan commercial networks – channels Seven, Nine and Ten – all with new owners, had emerged competing directly with each other and the publicly funded Australian Broadcasting Corporation, which operates national and local television and radio services SBS, the multi-cultural special interest channel.

The old television barons, Mr Kerry Packer, Mr Rupert Murdoch and the Fairfax family sold most of their television and radio interests and chose the print media. Into their places stepped a new breed of televison owners, Mr Alan Bond, Mr Christopher Skase, and Mr Frank Lowy.

The immediate challenges for the new owners have been to cut costs and pare down the mountains of debt they took on to acquire broadcasting assets at pre-crash prices - while slugging out a ratings war.

There have been other problems, too. Mr Bond, who acquired the top-rated Channel 9 stations from Mr Kerry Packer for A$1.1bn, is battling with the Australian Broadcasting Tribunal over whether he is a 'fit and proper person to hold broadcasting licenses.' The ABT, whose final findings were still awaited earlier this month, could force him to sell the television stations or impose tough conditions on the licenses. He also faces the cost of increasing local programming content on his stations in line with soon-to-be toughened ABT rules.

Channel 7, put together by Mr Skase's Qintex group from the Fairfax and Holmes a Court television interests, and channel 10, owned by Northern Star, a holding company controlled by the Lowy family through the Westfield group, also face problems with the ABT because recent television station purchases have taken them over the 60 per cent audience reach limit.

To help satisfy their growing need for programming material, all three metropolitan networks have links with Hollywood film companies. Most spectacularly, Qintex recently paid A$1bn for Mr Kirk Kerkorian's MGM/UA Communications group. These deals position them for the next round of legislative changes affecting television in the country's vast regional areas.

Outside the major cities, most Australians can only recieve ABC and one locally run commercial channel. But under new "equalisation" rules coming into effect over the next three years the local commercial station monopoly is to be broken. The aim of the equalisation plan is to bring at least three commercial stations to all television sets in New South Wales, Queensland and finally Victoria by aggregating existing small markets into larger regional ones and allowing stations to beam into adjacent areas.

For the regional television stations, including several emerging regional groups like Ramcorp, which has built up a nine station network reaching 30 per cent of the population and is on the point of acquiring two more from Quintex, it will require considerable capital expenditure. Ms Amanda Wilson, media analysts at Ord Minnett, the Sydney stockbroking firm, estimates the capital expenditure needed to put in new transmitters to extend coverage over Australia's often rugged terrain will cost each station between A$15m and A$25m.

The need for more programming to supplement local material is expected to throw the newly competing regional stations, which have until now been able to "cherry pick" the best rated shows from the metropolitan networks, into affiliate relationships with their big city counterparts.

While equalisation will eventually bring more stations to most in the East it will not affect Tasmania or the vast, thinly populated areas of Western Australia, South Australia and the Northern Territory. In these areas, outside the major cities, the populations are too small to support aggregation so the government is looking at alternative options – including extending existing satellite-delivered television services.

Long-established TV barons, Rupert Murdoch, left, and Kerry Packer were among those who sold many of their Australian TV and radio interests in favour of the print media.

Similar radical changes are underway in radio broadcasting. Despite the late arrival of FM radio, Australian radio broadcasting is highly developed and very competitive. In Sydney alone there are 30 stations of which 10 are commercial.

The rules now allow for ownership of one station in any metropolitan market and up to half the stations in a state within an overall limit of 16 stations nationwide. At the same time, the Government is undertaking a phased expansion of FM licences. In print, the oft-voiced public concern is over ownership concentration. The newspaper industry is now dominated by two groups, Mr Murdoch's News Corporation and, to a lesser extent, by the John Fairfax group.

In the wake of his A$2.3bn takeover of the Herald and Weekly Times group, Mr Murdoch is generally accepted to control between 60 and 70 per cent of Australia's print circulation including big city dailies like the Sydney Daily Telegraph and Melbourne Sun in addition to a string of highly profitable suburban newspapers. In the current financial year Ord Minnett estimates News Corporation will record trading profits of about A$145m on the Australian newspapers, up from A$113m in 1988, and a further A$65m from magazines and printing.

The current high profitability of the Australian press reflects the boom in property and classified advertising, factors which have also helped the drastically pruned Fairfax group to stay afloat. While the group's flagship daily newspapers, the Sydney Morning Herald, (Melbourne) Age and Financial Review are all believed to be big money spinners they essentially represent what is left of the old Fairfax media empire following the A$2.6bn takeover of the group by Warwick Fairfax, the 27-year-old Harvard educated family junior, in 1987.

In the wake of the extraordinary bitter takeover battle for the group, Mr Fairfax was forced to sell over A$1bn in assets including radio and television stations to reduce the interest burden on A$2.5bn in debt. Last autumn he negotiated a debt refinancing package, the details of which remain hazy.

Mr Packer is undisputed king of the final sector of the Australian media market – the magazine business – having sold out of broadcasting. His stranghold is such that further expansion by smaller rivals like News Corporation looks unlikely. Australia has the highest per capita magazine consumption rate in the world. By some estimates there are about 1,400 regular magazines including some, like The Australian Women's Weekly with circulations of over 1m in a population of just 16m.

Overall the key players appear to have staked out their ground in the dynamic Australian media industry. But ahead lies further uncertainty as the regulatory framework continues to evolve and the pace of technological change quickens. In television broadcasting in particular the next big challenge could come from direct broadcast satellite, or cable delivered pay television – a market that government regulators and media analysts alike believe could take-off in the early 1990s.

Chris Sherwell analyses the property market

An end in sight for the boom

AUSTRALIA'S boom-and-bust mentality is not confined to its miners, farmers or share market players. The affliction also looks like hitting the property sector, which has enjoyed one of its greatest surges over the past two years but expects a sharp reversal over the next two years.

Care is required in analysing the Australian property market because it is so stratified. What is happening in some metropolitan centres, such as Sydney or Melbourne, may not be happening in others, like Brisbane, Perth or Canberra.

Likewise, distinctions must not only be drawn between residential and commercial markets, but, within the latter, between the office, retail, industrial and hotel sectors. These, too, experience their own cycles, and they only occasionally coincide.

To a large extent the recent boom reflects just such a coincidence. But the causes go deeper. The principal factor in the market for central metropolitan office space was the deregulation of financial markets, which came on the back of a general expansion in the international financial sector.

Strong demand from banks, brokers, legal firms, accountancy firms and others servicing the financial sector collided with an acute shortage of prestige office space. Even the October 1987 crash, which punctured some of these groups' ballooning fortunes, left the commercial property market virtually unscathed.

Far from halting proposed developments and dissolving fears of an over-supply of space, the boom gathered momentum. One reason was the delay in the arrival of the economic recession. Another was the flood of money into the banks, which had to find a home. A third was the ongoing marketing of property trusts, which added to the finance available for property development.

Australia also retained its attraction for foreign investors, particularly the Japanese, seeking an outlet for their funds in the Pacific region. Australia's tourist sector, for example, has been the fastest-growing in the OECD, and billions of dollars – much of it from foreign sources – has been invested in the construction of hotel rooms in the various state capitals and resort areas.

Latterly, however, the bright outlook for commercial property – including, some believe, the tourist-oriented hotel and resort sector – has begun to fade. The building and construction industry has been a major component of Australia's recent economic boom, and the Government has responded by tightening monetary policy. With borrowing rates moving above 20 per cent, a slowdown is inevitable.

The bright outlook for commercial property has begun to fade

Last month, the forecasters BIS-Shrapnel noted that non-dwelling building approvals were continuing to grow at a "phenomenal" rate earlier this year. March quarter approvals were 39 per cent above the March 1988 quarter, and 91 per cent of the increase was accounted for by offices.

But BIS-Shrapnel called this the "last fling before the market turns down". It expects the non-dwelling building sector nationally to begin to decline by the September quarter, and says the fall will be particularly severe in commercial development. Most other analysts agree, differing only in their estimates of future over-capacity.

Their explanation is straightforward. Apart from the Government's high interest rate regime, the reduced yields from property investment and the statistical inevitability of over-supply, they cite three other factors – rising construction costs, increasing problems in winning city planning approvals and the costly demands of prospective tenants for special deals.

As the market becomes demand-led rather than construction-led, analysts expect vacancy rates in Sydney's central business district to rise above 10 per cent by 1992.

In Melbourne, they are forecast to go even higher because a flood of office completions is due to hit the market by 1991. In Brisbane, on the other hand, the vacancy rate approached 10 per cent last year, and this is expected to drop.

The market for retail shopping property, though vulnerable to an overall economic downturn, is reckoned to be less brittle because it is exposed to other factors apart from the general state of the economy, such as the extension of shopping hours and the shift to suburban shopping malls. But as with office space, location and quality remain prime considerations.

In the residential housing sector, where the individual prosperity which followed the expansion of the financial sector stimulated a dramatic surge in prices, the share market crash and the record 17 per cent level of mortgage rates have both weakened the head of steam which had built up.

But here, too, there are extraneous forces underpinning the market's buoyancy: the re-introduction of a tax break encouraging investors to buy and rent out second houses, a general land shortage in the metropolitan areas, the increasing size of the population because of natural growth and immigration, and the ageing of the population, which is encouraging the development of retirement villages and "secure" estates.

One new focus of controversy in the Australian property market is the growing presence of Asian investors following the federal government's relaxation of guidelines for foreign investment.

Vocal objections have been made over investment, especially Japanese investment, in tourist, ranching and real estate projects. Canberra has tightened its rules over residential investment, and the Queensland state government

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Tasmania's Rock Island Bend on Franklin River: everything in the picture would be submerged if plans for a dam were approved

Paul Taylor traces the growth of the 'greenie' movement

Environmental balancing act

THERE are not many issues that make leisure-loving Australians hot under the collar. But pollution and the environment is rapidly becoming one of them.

Sydneysiders woke up to the environment when they found their favourite beaches, including famous Bondi, were polluted by sewage. In New South Wales and Tasmania the debate is about forestry and the side-effects of paper production.

Elsewhere concerns range from soil degradation on a massive scale to the unsightly impact of opencast mining, the country's uranium policy and the impact tourism could have on areas such as the Great Barrier Reef. Even Australia's signing of an international convention on mining in Antarctica now looks doubtful because of environmental concerns.

The "greenies", as Australian environmentalists are called, are already having a significant impact on national *and local politics*. In Tasmania, where environmentalists have successfully helped scupper several major projects, including most recently the proposed A$1bn Wesley Vale pulp mill plan, five greenie-backed independents hold the balance of power between the Liberal government and its Labour opposition following elections last month. At the Federal level the major parties are vying with each other to prove they are the most "environmentally friendly".

But for a resource-based economy like Australia's the growing power of the conservationists poses serious challenges for the future. In particular it is forcing the Federal and State governments, often themselves on different sides of the fence, to face up to the competing interests of developers and conservationists.

The solution, many believe, is agreement on a more structured national policy towards development and the environment. But even this is not easily achieved in a nation where the rights of states are jealously guarded and where the constitution and taxation policy dictates that the economic interests of commonwealth and states may often be at variance.

In Queensland, for example, the mining industry pumps A$650m a year in royalties and transport taxes into the state coffers – the largest source of non-federal revenues for the state. "Politically they can't afford to lose it," says Mr Michael Pinnock, executive director of the Queensland Chamber of Mines.

And while the states have a natural interest in overseeing mining activity (after a developer's *Environmental Impact* Statement has been approved) it is the Federal Government that issues export licences.

Similarly, under Australia's constitution the only way that the Federal government has been able to establish control over some park areas has been by invoking its foreign policy powers and seeking to have them listed under Unesco's World Heritage Scheme. This has led to the bizarre spectacle of Federal and State government delegations arguing opposite cases before Unesco in Paris.

However, some attempts are being made to lay down a more coherent framework within which competing interests can be evaluated if not reconciled. The most important of these initiatives is probably the government's recent decision to set up a Resources Assessment Commission.

The commission is charged with establishing a national database of resources and holding public inquiries to determine broad guidelines covering land use. Rather than examining specific project proposals the commission is expected to *try and provide an* agreed basis for decision-making, taking into account costs and benefits.

Its first reference is likely to be the Australian forestry industry. The hope is that such a framework will enable future decisions to be taken after informed debate rather than in the heat of an emotional moment. But even with its limited objectives the new commission does not face a smooth ride. Environmental-pressure groups such as the Australian Conservation Foundation (ACF) are deeply suspicious of the Commission which they fear will be biased towards developers.

"It does not resolve the fundamental conflict which is political," says Mr Bill Hare, deputy director of the ACF which would prefer the establishment of a national protection agency.

The central issue for Australia's primary industries in the environment debate is over land access and use. It is a battle being fought with often wildly contradictory claims. For example, the greenies claim that in the past 200 years more than half Australia's native forests, including 75 per cent of its rainforests, have been cleared. But industry, backed by the state governments, say this is a huge exaggeration.

From the other side the Australian Mining Industry Council claimed last year in a document titled "Shrinking Australia: The Problem of Access to Land" that almost 25 per cent of Australia's land surface was either severely restricted or closed to new exploration or mining activity. The council claims the figure is even higher today but the ACF and other environmental *lobby groups say the figures* have been falsely presented and that in many "locked up" areas not only exploration but mining activity is already taking place.

'People are becoming more aware of the damage being done'

"We would be very pleased if 25 per cent was locked away," says the ACF's Mr Hare. "We maintain the true figure is less than 5 per cent."

The divisions are equally sharp over other issues. The mining industry maintains it has a *good record on restoration*: the conservationists say the record is bad, and for the moment they appear to have the upper hand. In Queensland three new mineral sands projects have been closed down or never started because of environmental pressure. A handful of other environmental "hot spots" and big projects could put these competing claims to the test.

In the mining sector, Northern Territory's Kakadu, a park the boundaries of which have been extended into what mining industry officials call "clapped out buffalo country", industry is fighting for new exploration rights and for the go-ahead to be given to BHP's huge Coronation Hill gold discoveries bordering the main park.

In pulp and paper, despite the demise of Wesley Vale, a planned joint venture project between Canada's Noranda Forests and Australia's Northern Broken Hill-Peko which would have added A$240m a year to Tasmania's exports, new pulp mill plans are likely to be put forward in both Tasmania and Victoria. In tour*ism, too,* the rapid growth of Australia as an international tourist destination has prompted concerns about its impact on areas such as the Great Barrier Reef where strict regulations, including hefty fines, are already in force for unauthorised coral collectors.

Mr Hare and others in the ACF maintain that the recent surge in greenie support reflects the fact that "people are becoming more aware of *the damage that is being done* to the earth." Industry officials acknowledge that conservation is important but, like Mr Colin Myers of mining group MIM, insist that "we have to strip away the confrontation" in order to achieve "sustainable development". Without compromises some in the primary industries sector warn the future could be bleak.

Although the greenie bandwagon is rolling in Australia, the conservationists still have problems. The 20-plus environmental lobby groups, including the ACF and more radical Wilderness *Society, are frag*mented and their membership is small in absolute numbers. The ACF has just 15,000 members although it claims a much broader group of supporters.

In an effort to overcome differences and forge a new unified policy the groups got together last month at a conservationists' summit in Canberra and agreed to put forward a united front at the next Federal elections. One key decision they still have to face is whether to continue to operate as lobby and pressure groups, backing any candidate at election time who espouses their causes, or to try and form a coherent political party to fight elections.

So far, although contact and coordination between the groups is growing, they seem happy to stay on the fringes of mainstream politics. The conservationists also face the challenge of shrugging off their widely held but hotly disputed image as "a small group of middle-class east coast intellec*tuals" and making* inroads into the more conservative farming and industrial workforce by persuading them that the choice is not between a clean environment or jobs.

Ultimately the battle the greenies are waging is one over the future of Australia and its economy. Whatever the outcome they cannot be ignored, but the challenge will be to find ways in which valid environmental concerns can be accommodated

Property

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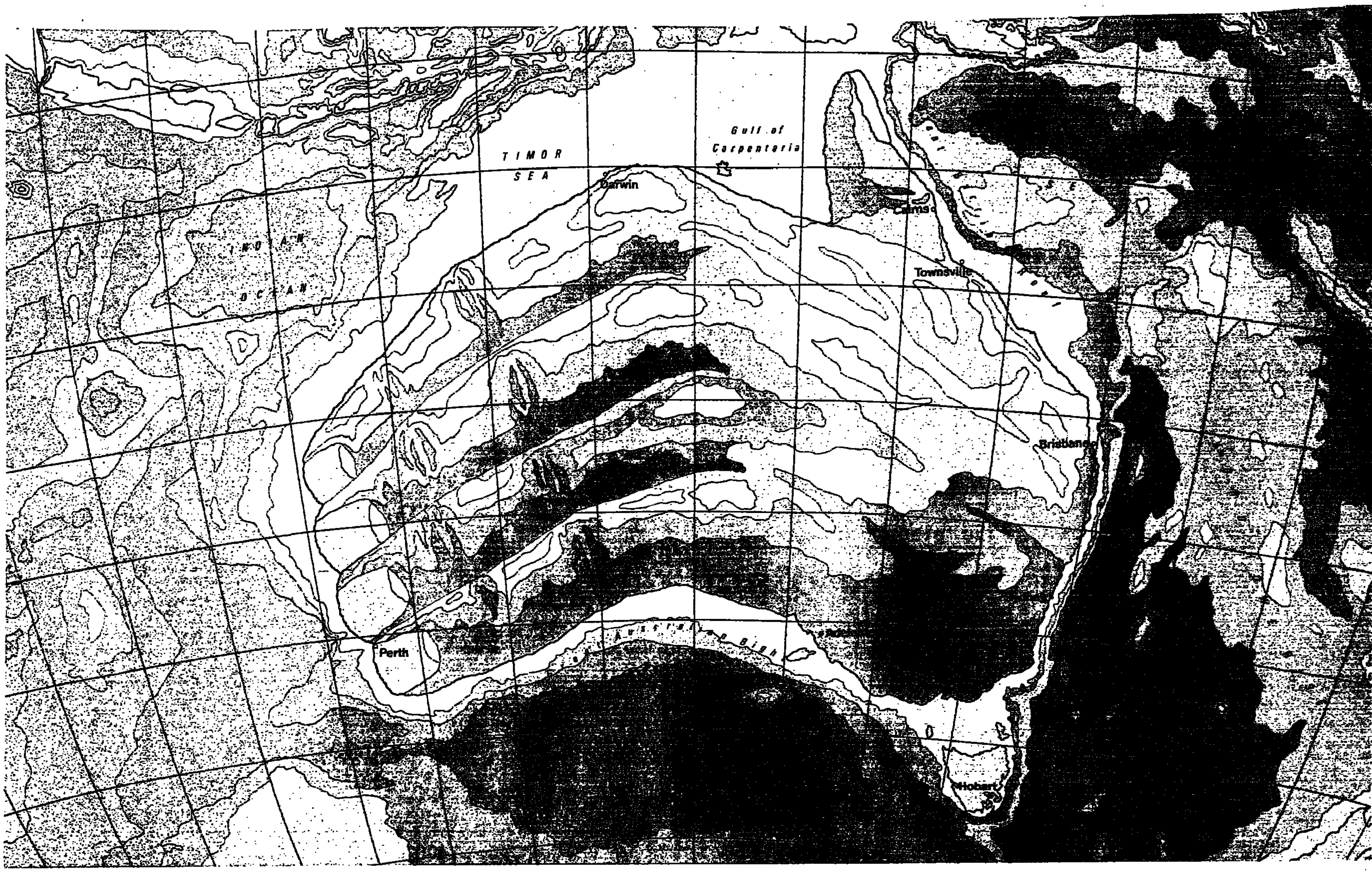
has set up a foreign land register, the first of its type.

But in fact Australia remains heavily dependent on foreign investment to develop its economy and overcome its chronic balance of payments problems. It is also an attractive place for foreigners to invest in property. As the Foreign Investment Review Board's figures show, *almost* A$10bn-worth of foreign-related investment went into urban real estate in the year to June 1988. Another A$2bn of foreign investment went into tourism-related industries, and A$230m into rural properties.



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